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TERMS FOR MAKING AND
DISTRIBUTING PHONORECORDS
(Phonorecords IV)

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(2023-2027)

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FQ2 2020 Earnings Call Transcripts

Thursday, April 30, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-	-FQ2 2020-		-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	4.54	2.26	▲12.83	12.22	14.81
Revenue (mm)	88405.08	54642.57	▲6.72	259443.00	296569.60

Currency: USD

Consensus as of Apr-28-2020 9:00 AM GMT

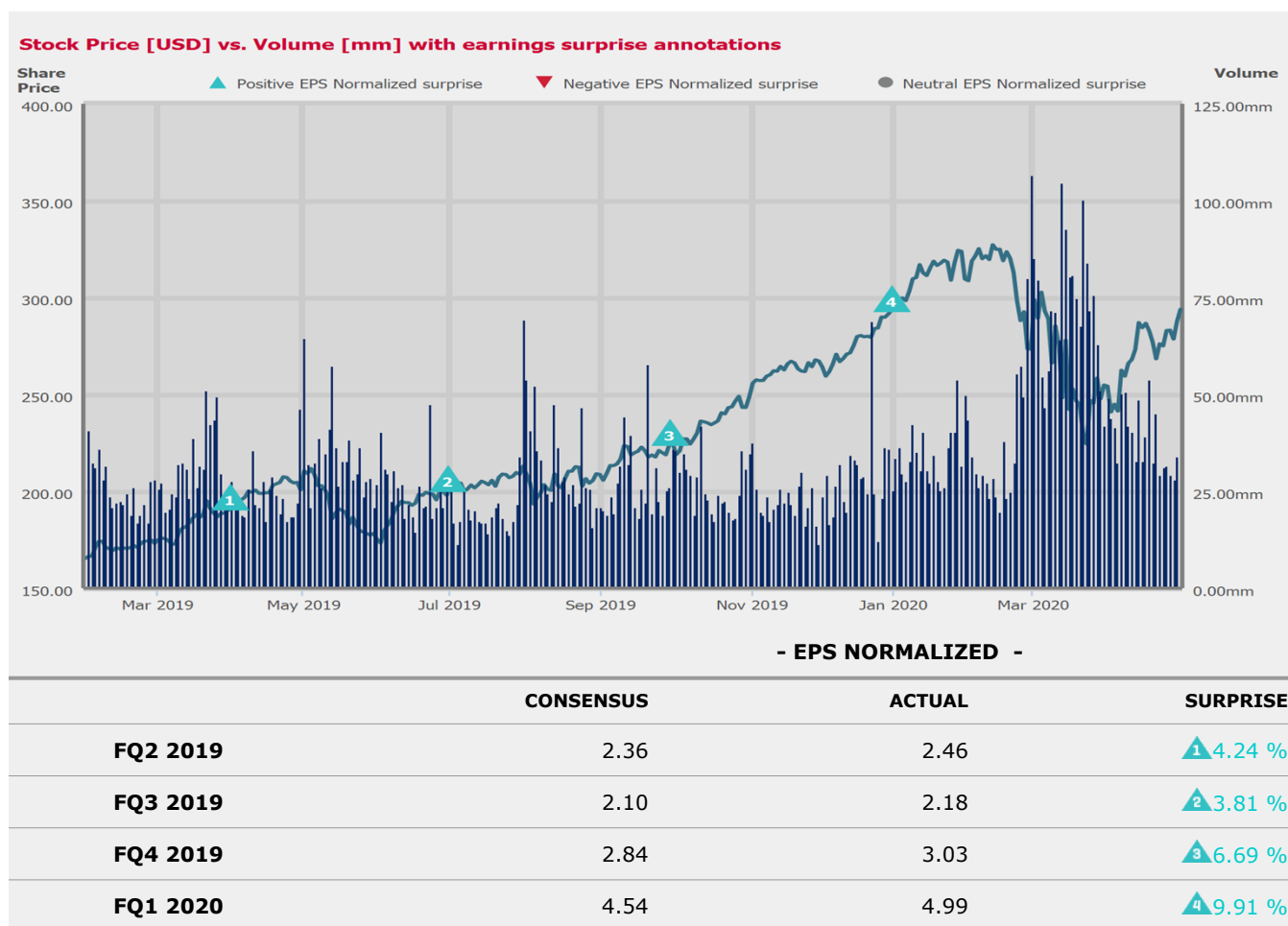


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Call Participants

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Presentation

Operator

Good day, everyone. Welcome to the Apple Inc. Second Quarter Fiscal Year 2020 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to Mr. Tejas Gala, Senior Manager, Corporate Finance and Investor Relations. Please go ahead.

Tejas Gala

Investor Relations Contact

Thank you. Good afternoon, and thank you for joining us. Speaking first today is Apple's CEO, Tim Cook; and he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation, and future business outlook including the potential impact of COVID-19 on the company's business and results of operations. Actual results or trends could differ materially from our forecast. For more information, please refer to the risk factors discussed in Apple's most recently filed periodic reports on Form 10-K and Form 10-Q and the Form 8-K filed with the SEC today along with the associated press release. Apple assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

I'd now like to turn the call over to Tim for introductory remarks.

Timothy D. Cook

CEO & Director

Thanks, Tejas. Good afternoon, everyone. Thanks for joining us today. I hope you're staying safe and well. Today, Apple reports \$58.3 billion in revenue, an all-time record for Services and a quarterly record for Wearables, Home and Accessories. It was also a quarterly revenue record for Apple retail powered by phenomenal growth in our online store. Amid the most challenging global environment in which we've ever operated our business, we're proud to say that Apple grew during the quarter.

But before we dive more deeply into the numbers, I want to speak just for a bit on COVID-19. This is something Apple has been contending with since January, and I think that how we have responded, what we have been inspired to do tells an important story about Apple's great durability as a business and the enduring importance of our products in our customers' lives. It also speaks to Apple's unmatched capacity to be creative, to think always in terms of the long term and to forge ahead when others may feel an instinct to pull back.

Before COVID-19 was on the horizon, we anticipated that Q2 was going to be a prolific and energetic period for Apple. And when the pandemic did strike, our teams not only succeeded in growing the business, in introducing powerful new products and in meeting our customers' needs, but they also rose to the occasion in terms of meeting our broader obligations to the communities in which we live and work.

Let's look quickly across the business. At the same time that they were leaving no stone unturned to get our latest generation of devices manufactured and into our customers' hands, our worldwide network of supply chain partners, logistics and operations folks in every part of the company were also sourcing more than 30 million masks for frontline medical workers, ensuring they're donated to places of greatest need in every region around the world. While our product teams were preparing to launch a new iPad Pro, Magic Keyboard, Macbook Air and the new iPhone SE, all of which have been very well received by reviewers and consumers alike, they were also working with our suppliers to design, test, manufacture and distribute more than 7.5 million face shields, and we continue to ship more than 1 million of these every week to the doctors, nurses and medical personnel on the front lines.

In a quarter where our Services teams achieved strong growth, which Luca will dig into in a minute and which speaks to the real durability of our Services strategy, these teams were also putting COVID-19 front

and center. As Apple News reached 125 million monthly active users, we elevated trusted information from reliable sources through a special COVID-19 vertical. We let customers skip payments without incurring interest on Apple Card for March and April in light of financial hardship for many families. We worked with everyone from Oprah to Lady Gaga to inform, entertain and give back through Apple TV. And Services like FaceTime and Messages set new all-time records for daily volume during this quarter as users rely on their devices to stay connected in a new reality.

In software, at the same time that our teams worked with great creativity and excitement as we prepared to deliver our first ever all-online Worldwide Developers Conference later this quarter, they also worked with the same creativity and speed to put together our COVID-19 symptom checking website and app in partnership with the CDC. As of today, the app has been installed nearly 2 million times, and the web tool has received over 3 million unique visits. And just this month, to accelerate contact tracing, we are launching a joint effort with Google to enable the use of Bluetooth technology to help governments and health agencies spread the -- reduce the spread of the virus with user privacy and security central to the design.

We paired these programmatic efforts with a broader strategy to give back where it's needed most. We've made major corporate donations to response efforts around the world to support Global Citizen as well as a new fund for Americans experiencing food and security as a result of the crisis. When you tally these things up and consider our ongoing 2:1 match for employee donations, Apple's contributions to the global response are significant, diverse and a great source of pride for the whole team.

We're also doing what we can to help our employees, their families and, by extension, their communities stay safe and well by modifying our operations where appropriate. This extends, of course, to our retail employees. They are Apple's face to our customers and an instrumental part of our business, and we're compensating them normally despite store closures. During a quarter where circumstances evolve by the hour, we have been gratified by the resilience and adaptability of our global supply chain. While we felt some temporary supply constraints in February, our operations team, suppliers and manufacturing partners have been safely returning to work, and production was back at typical levels toward the end of March.

At this time of social distance, of shuttered schools and gathering places, of delayed plans and new ways of socializing, we have seen significant evidence that our products have taken a renewed importance for customers. Teachers and students around the world are relying on our technology to teach, learn and stay connected with each other. We are in the process of deploying major orders of iPads to school systems working to keep learning going strong at a distance, including tens of thousands in Ontario, Canada; Glasgow, Scotland; and Puerto Rico; 100,000 to the city of Los Angeles; and 350,000 to New York City, our largest educational iPad deployment ever.

Since early March, we've seen unprecedented demand for our Pro apps from students, enthusiasts and creative professionals. These folks are keeping us all entertained and inspired as we stay at home, and to help them do it, we made Final Cut Pro X and Logic Pro X available for free for 90 days for everyone. And the reaction has been overwhelming, driving software downloads and usage to record levels.

And doctors and medical professionals are making even greater use of Apple Watch and other health features to communicate with patients and to treat them safely from a distance when necessary. With new FDA guidance on noninvasive remote patient monitoring, for example, the ECG app on Apple Watch is increasingly being used to facilitate remote ECG measurements and recordings for telemedicine usage, reducing patient and health care provider contact and exposure. Many hospitals, such as Geisinger Health System, NYU Langone Health and Stanford Health Care are using apps on iPad and iPhone to support communication and video conferences between hospitalized patients and their care teams. This enables the care teams to keep a close watch on patients without entering isolation rooms, which helps to minimize exposure and reduces some of the need for personal protective equipment.

Now when you step back and tally all this up, when you consider all the ways COVID-19 has touched Apple, our customers and the way we work, this may not have been the quarter it could have been absent this pandemic, but I don't think I can recall a quarter where I've been prouder of what we do or how we do it. As I said at the outset, we achieved revenue of \$58.3 billion, and underneath that was product

revenue of \$45 billion. The performance of our product business had 3 very different phases during the March quarter. Based on Apple's performance during the first 5 weeks of the quarter, we were confident we were headed toward a record second quarter at the very high end of our expectations.

In the next 5 weeks of the quarter, as COVID-19 started impacting China, iPhone supply was temporarily affected as well as demand for our products within China. This caused us to withdraw our revenue guidance in February. At that point, demand for our products outside of China was still strong and in line with our expectations. During the last 3 weeks of the quarter, as the virus spread globally and social distancing measures were put in place worldwide, including the closure of all our retail stores outside of Greater China on March 13 and many channel partner points of sales around the world, we saw downward pressure on demand, particularly for iPhone and Wearables.

Given the lack of visibility and certainty in the near term, we will not be issuing guidance for the coming quarter. Over the long term though, we have a high degree of confidence in the enduring strength of our business. Our global supply chain is profoundly durable and resilient. We have shown the consistent ability to meet and manage temporary supply challenges like those caused by COVID-19. We have continued to deliver innovative new products across multiple categories that appeal to a broad cross-section of customers, including the all-new iPhone SE, which achieved unmatched technological capacity at an incredible value.

Our teams worldwide have tackled the complexities of this moment with unmatched creativity, good humor and dedication to our customers. For a company whose business is innovation, there are real upsides in periodically having to figure out how to do just about everything in a brand-new way. Our long-running investment in our Services strategy is succeeding. This business is growing and is a reflection of our enduring, large and growing installed base. We expect to meet our long-standing goal of doubling our fiscal 2016 Services revenue in 2020.

We have always run Apple for the long term. We entered this period with unmatched financial strength, a robust cash position and our best product pipeline ever. Major investments, including our 5-year commitment to contribute \$350 billion to the economy here in the United States, are moving forward full speed ahead. It's in these moments that we set ourselves apart. We've always managed through difficult moments by doubling down and investing in the next generation of innovation, and that's our strategy today.

And so while we can't say for sure how many chapters are in this book, we can have confidence that the ending will be a good one. Apple will continue to do everything we can do to help the global response and to keep our customers learning, creating, sharing and connecting so that life can remain as normal as it can during this challenging time.

With that, I'll hand things off to Luca.

Luca Maestri
CFO & Senior VP

Thank you, Tim. Good afternoon, everyone. It has been a very different quarter than we were expecting when we last talked to you at the end of January. But we could not be more proud of our Apple teams around the world, our role in supporting local communities and our partners throughout the value chain and how resilient our business and financial performance has been during these challenging times.

Total revenue for the quarter was \$58.3 billion, up 1% from a year ago despite the extreme circumstances from the impact of COVID-19 and a headwind of 100 basis points from foreign exchange. Products revenue was \$45 billion, down 3%. After a very strong January, our performance was impacted, particularly during the last 3 weeks of the quarter when lockdowns and point-of-sale closures increased due to COVID-19 spreading around the world and affected our product sales. However, on a demand basis, our performance was stronger than our reported results as we reduced iPhone channel inventory more than we did a year ago. Importantly, our installed base of active devices reached an all-time high in all of our geographic segments and all major product categories.

Services revenue followed a different trend with very strong year-over-year growth of 17%. We set a new all-time revenue record of \$13.3 billion with all-time records in many of our Services categories and in most countries we track. I'll provide more details on this later.

Company gross margin was 38.4%, flat sequentially with cost savings, a mix shift towards Services offset by the seasonal loss of leverage. Products gross margin was 30.3%, decreasing 380 basis points sequentially due to loss of leverage and unfavorable mix. This drop was more pronounced than under normal circumstances due to the COVID-19 impact I mentioned earlier.

Services gross margin was 65.4%, up 100 basis points sequentially driven by favorable mix. Our reported tax rate for the quarter was 14.4%. This was lower than our 16.5% guidance due to onetime discrete items. Net income was \$11.2 billion and earnings per share were \$2.55, up 4%. Operating cash flow was very strong at \$13.3 billion, an improvement of \$2.2 billion over a year ago.

Let me get into more detail for each of our revenue categories. iPhone revenue of \$29 billion declined 7% year-over-year as both iPhone supply and demand were affected by the impact of COVID-19 at some point during the quarter. On the supply side, we suffered from some temporary supply shortages during February, but we've been extremely pleased with the resilience and adaptability of our global supply chain as well as its ability to get people back to work safely when circumstances allow.

Our operations team and manufacturing partners put forth an extraordinary effort to restore production quickly, and we exited the quarter in a good supply position for most of our product lines. On the demand side, after a very strong first 5 weeks, we saw the impact of COVID-19 affect demand in China for the next 5 weeks and then more broadly around the world for the last 3 weeks of the quarter when lockdowns and point-of-sale closures became more widespread in many countries.

While we did see a slight elongation in our replacement cycle towards the end of the quarter, which we attribute to the widespread point-of-sale closures, our active installed base of iPhones has reached an all-time high. This speaks to the quality of our products and strength of our ecosystem. In fact, in the U.S., the latest survey of consumers from 451 Research indicates iPhone customer satisfaction of 99% for iPhone 11, 11 Pro and 11 Pro Max combined.

Turning to Services. We set an all-time revenue record of \$13.3 billion. We had strong performance across the board with all-time revenue records in the App Store, Apple Music, video, cloud services and our App Store Search Ad business. And we also set a March quarter record for Apple Care. Our new services, Apple TV+, Apple Arcade, Apple News+ and Apple Card, continue to add users, content and features while contributing to overall Services growth. As Tim mentioned, we're well on our way to accomplishing our goal of doubling our fiscal '16 Services revenue during 2020.

App Store revenue grew by strong double digits thanks to robust customer demand for both in-app purchases and subscriptions. Our third-party subscription business grew across multiple categories and increased over 30% year-over-year, reaching a new all-time high. Our first-party subscription services also continued to perform very well. Apple Music and cloud services both set all-time revenue records and Apple Care set a March quarter record. Paid subscriptions for all 3 of these services were up strong double digits.

Customer engagement in our ecosystem continues to grow strongly, and the number of both transacting and paid accounts on our digital content stores reached a new all-time high during the March quarter. In particular, the number of paid accounts increased double digits in all of our geographic segments. We now have over 515 million paid subscriptions across the services on our platform, up 125 million from a year ago. On a sequential basis, paid subscriptions grew by over 35 million. This is the highest sequential growth we have ever experienced. With this momentum, we are confident we will reach our increased target of 600 million paid subscriptions before the end of calendar 2020.

Wearables, Home and Accessories established a new March quarter record with revenue of \$6.3 billion, up 23% year-over-year with strong double-digit performance across all 5 geographic segments. Our Wearables business is now the size of a Fortune 140 company, and we're very excited by the many opportunities in front of us for this product category. For example, Apple Watch continues to extend its

reach at over 75% of the customers purchasing Apple Watch around the world during the quarter were new to the product.

Next, I'd like to talk about Mac and iPad. Mac revenue was \$5.4 billion. iPad revenue was \$4.4 billion. Towards the end of the quarter, we launched a brand-new iPad Pro that includes a first-in-class LiDAR scanner with some really exciting augmented reality applications and MacBook Air with significantly improved performance at a lower price. We're very pleased with the strong customer interest for both products.

Importantly, around half of the customers purchasing Macs and iPads around the world during the quarter were new to that product, and the active installed base for both Mac and iPad reached a new all-time high. And the most recent surveys of consumers from 451 Research measured customer satisfaction at 95% for iPad and 96% for Mac.

In the enterprise market, businesses everywhere have been making the transition to working remotely. We've created content to assist our customers in this transition, including an on-demand video learning series focused on topics like remote deployments of iPads and Macs and security. We have also realigned our own retail business and enterprise teams to provide timely and relevant support to customers as they navigate new work environments. Some of our largest customers offering Mac to employees, such as IBM and SAP, have been able to pivot quickly to allow employees to easily set up and secure their devices from home, benefiting from Apple Business Manager and zero-touch deployment. And we've seen countless examples of new projects and remote deployments implemented in just a few hours. Peloton, for instance, worked with our New York teams to deploy an entire fleet of Macs overnight so their team could work remotely.

In essential sectors such as grocery and financial services, we're seeing organizations adopt our technology to better serve their customers safely. Leading grocers around the world like Trader Joe's, Woolworths, Lawson, Sainsbury's, Lidl and Carrefour offer Apple Pay so customers can use contactless payments, and a store shift to become fulfillment centers for online orders, organizations are leveraging apps for remote shoppers and food delivery to reduce foot traffic.

In banking, where safety and security is a top priority, one way to protect company and client information is by providing corporate iOS devices to employees who use mobile phones daily as part of their jobs. As an example, Bank of America is purchasing tens of thousands of additional iOS devices for their workforce.

Let me now turn to our cash position. First, I want to note that liquidity has not been an issue for us during these highly unusual financial market conditions. We have an extraordinarily strong balance sheet, very deep access to capital markets and unmatched free cash flow generation. We ended the quarter with \$193 billion in cash plus marketable securities, total debt of \$110 billion, and as a result, net cash was \$83 billion at the end of the quarter. We returned \$22 billion to shareholders during the March quarter, including \$18.5 billion through open market repurchases of 64.7 million Apple shares and \$3.4 billion in dividends and equivalents.

Finally, as we move ahead into the June quarter, I'd like to provide some color on what we are seeing, which includes the types of forward-looking information that Tejas referred to at the beginning of the call. As Tim mentioned, given the lack of visibility and certainty in the near term, we will not be issuing guidance for the coming quarter. However, based on what we have seen in April and how we think things might play out, I would like to provide some additional insight on headwinds and tailwinds we're facing.

From a foreign exchange standpoint, the U.S. dollar has appreciated recently against most currencies around the world, and as a result, we expect our revenue to be negatively impacted by more than \$1.5 billion on a year-over-year basis. Our global supply chain is back up and running. We are in a typical supply position, including our usual ramp associated with new products recently launched. These newly launched products, iPad Pro, MacBook Air and iPhone SE have all received outstanding customer response even during these extreme circumstances.

On iPhone and Wearables, we expect the year-over-year revenue performance to worsen in the June quarter relative to the March quarter. On iPad and Mac, we expect the year-over-year revenue

performance to improve in the June quarter. On Services, we are seeing 2 distinct trends. First, customers are actively engaging with our ecosystem and digital services, and we believe the very strong recent performance in the App Store, video, Music and cloud services will continue throughout the June quarter. Second, due to the overall reduced level of economic activity due to the lockdowns around the world, services like Apple Care and advertising have been impacted. Apple Care is comprised of our product repair business and the warranty agreements with our customers, both of which have been obviously affected by store closures and reduced level of customer traffic. Advertising, which is comprised of third-party agreements, our App Store search ads and Apple News ads has been impacted by overall economic weakness and uncertainty on when businesses will reopen.

For gross margin, sequential headwinds include foreign exchange, the mix within products and the seasonal loss of leverage on our product business. Foreign exchange will have a 70 basis points impact sequentially and 130 basis points impact year-over-year. Regarding product mix, keep in mind the commentary we provided at the revenue level. Sequential tailwinds include cost savings and the mix shift towards Services.

With regard to capital allocation, our approach remains unchanged. We continue to invest confidently in our future while also returning value to our shareholders. We are in the midst of developing our most exciting pipeline of products and services ever while contributing over \$350 billion to the U.S. economy and expanding our footprint in many cities around the country over a 5-year period.

We also continue to believe that there is great value in our stock, and we are maintaining our target of reaching a net cash neutral position over time. As a testament to the confidence we have in our business today and into the future, our Board has authorized \$50 billion for share repurchases in addition to the over \$40 billion authorization remaining under the current share repurchase plan. Our Board has also authorized a 6% increase in our quarterly dividend and today declared a cash dividend of \$0.82 per share of common stock payable on May 14, 2020, to shareholders of record as of May 11, 2020.

Finally and most importantly, we are managing Apple for the long term as we've always done. During uncertain times historically, we have continued to invest in the business, and this remains our philosophy. We will continue to stay focused on what we do best, investing in our product and service pipeline, managing the business wisely and taking care of our teams and believe we will come out from this stronger.

With that, let's open the call to questions.

Tejas Gala

Investor Relations Contact

Thank you, Luca. [Operator Instructions] Operator, may we have the first question, please?

Question and Answer

Operator

Yes. That will come from Shannon Cross, Cross Research.

Shannon Siemsen Cross

Cross Research LLC

I hope everyone is well. Tim, you talked about seeing some improvement in the second half of April. So I was wondering if you could just talk maybe a bit more on the segment and geographic basis what you're seeing in the various regions that you're selling in and what you're hearing from your customers. And then I have a follow-up.

Timothy D. Cook

CEO & Director

Sure, Shannon. If you look at -- I'll start with China. If you look at what happened in China, we were having a really good January. The lockdown started there toward the end of January as you know. February, we saw a steep decline in demand. We closed our stores in February. As the lockdown completed in mid-February toward the second half of February, we began to open stores. We opened them on a staggered basis. That took about 30 days until mid-March. And from a demand point of view, we saw an improvement in March over February. And if you look at kind of where we are today, we've seen further improvement in April as compared to March. And so that's China.

If you look at the rest of the world, we were doing great in January, the first 5 weeks of the quarter. And we do believe that we were headed toward the sort of the top end of our expectations that we had talked to you about on the last call, that the next 5 weeks were spent sort of reacting and getting the supply chain back up in full force and working through the sharp decline in China that I already talked about.

The real thing for the rest of the world happened in March when the shelter-in-place orders went in and the work from home began. For those 2-, 3-week period, at the end of the quarter, we saw a sharp decline in demand. If you now step out into April and look at that, early April started like the end of March, but in the second half of April, we've seen an uptick across -- really across the board. It's not just related to a certain geo or a certain product. We think, by looking at it, a part of it is due to just our new products. A part of it is due to the stimulus programs taking effect in April, and then a part of it is probably the consumer behavior of knowing this is going to go on for a little while longer and getting some devices and so forth lined up to work at home more.

In particular for, as I think Luca shared, we believe that iPad and Mac are going to improve on a year-over-year basis during this quarter. And that's customers that are either taking online education or working remotely. And so complex answer to your question but that's what we're seeing.

Shannon Siemsen Cross

Cross Research LLC

That was helpful. Luca, unless I missed it, you talked about various puts and takes in the quarter but didn't really discuss operating expenses. I know you mentioned some cost savings on the COGS line. I'm curious how you're thinking about your spending in OpEx given some of the macro challenges that you may be facing.

Luca Maestri

CFO & Senior VP

Yes. Well, Shannon, as we said, we manage the company for the long term, right? So we know that the core of the business, the core of the company is innovation and product and services development, so we will continue to invest in our pipeline. We're very excited about what we have in store, and so we will continue to invest there. Obviously, we are aware of the environment, and so we will manage the SG&A

portion of the company tightly. We are making new investments in the new services that we launched recently. We -- as you know, we purchased the baseband activities from Intel, and obviously, we want to develop that technology because we consider it's a core technology for us. And so we will try to balance the need to continue to invest during difficult circumstances and the fact that we like to manage the business wisely.

Operator

That will be from Wamsi Mohan with Bank of America.

Wamsi Mohan

BofA Merrill Lynch, Research Division

Tim, I think I speak for everyone on the call that we're all very appreciative of Apple's contribution during this pandemic. We all appreciate it.

Timothy D. Cook

CEO & Director

Thank you very much for that.

Wamsi Mohan

BofA Merrill Lynch, Research Division

No, it's been great. Tim, in past downturns, we have not really seen Apple pull back from investing, and you as a company have largely maintained the product introduction cadence. But given these are unprecedented times and there are a lot of challenges associated with product development during a time when you have a global footprint for such activities and unable to really do a lot of things in person, how should we think about the product development and introduction cadence as we go over the next several quarters? And I have a follow-up.

Timothy D. Cook

CEO & Director

Well, we're continuing to operate. And so as you can tell, along with everything else going on, we were able to launch and ship the iPhone SE, the iPad Pro with the Magic Keyboard and the MacBook Air. And so business continues and the new products are our lifeblood. And so we're continuing to work. Everybody is getting used to the work at home. In some areas of the company, people may be even more productive. In some other areas, they're not as productive, and so it's mixed depending upon what the roles are. But as you can tell from what we did this quarter, despite the environment, we have our head down, are working because we know that our customers want the products that we've got. They are even more important in these times.

Wamsi Mohan

BofA Merrill Lynch, Research Division

As a follow-up, I know you're doing a lot with both the Apple Card and financing plan for iPhones to get your products in the hands of customers. But I was wondering, would you consider using the strength of your balance sheet maybe a little differently structured, maybe deferred payments or things like that? And -- or do you think that there could be other steps like bundling that you will consider versus what you already currently do?

Timothy D. Cook

CEO & Director

Well, as you know, we launched the payment plan earlier on Apple Card for iPhone. We're working on doing that for other products as well, and you'll see something on that shortly. So we're very focused on the affordability point. The trade-in programs also are fairly wide across the board and act as both something great for the environment, also something great from a way to get that entry price down.

In terms of deferred payments, nothing to announce today. But as you know, having access to the Card, at least in the United States, gives us more degrees of freedom, and that is not using our balance sheet. It's -- but we play a key role in deciding what kind of programs go with the Card.

Operator

That will come from Morgan Stanley's Katy Huberty.

Kathryn Lynn Huberty

Morgan Stanley, Research Division

I hope the whole team is staying healthy and safe. Tim, I want to start on a longer-term question. Where do you see structural changes on the back of this health crisis that might present opportunities for new revenue streams at Apple? And I'm particularly thinking about your past comments on health and augmented reality, but I'm sure there's even more areas of inspiration and creativity coming out of the company. And then I have a follow-up.

Timothy D. Cook

CEO & Director

I think there are things from just a great reminder of how important our products are and -- for remote work. And it's pretty clear to me that where things will get a lot closer to normal than they are today, obviously, I think many people are finding that they can learn remotely, and so I suspect that trend will accelerate some. I think that's probably also true about working remotely on -- in some areas and in some jobs. And so I think we have significant solutions and products for those -- for all of those groups.

On the health area, I gave some examples in my opening comments about the ECG being used on the Watch. You can bet that we're looking at other areas in this. We were already doing that because we've viewed that, that area was a huge opportunity for the company and a way for us to help a lot of people. And so you will see us continue on that. I wouldn't say that the health door opened wider. I would say it was already opened fairly wide.

Kathryn Lynn Huberty

Morgan Stanley, Research Division

Okay. And then as a follow-up, the \$50 billion share repurchase authorization is impressive in absolute terms, but it is a bit lower than the last couple of years. So just any context around the thought process of landing on \$50 billion? And then related to that, you have one of the strongest balance sheets in the world. Does the current environment change your thinking at all around M&A opportunities?

Luca Maestri

CFO & Senior VP

Well, let me answer that, Katy. First of all, on the buyback, as I said, in general, our approach to capital allocation has remained the same for the last several years, and it's not changing now. Keep in mind here, we're talking about just the authorization, right? And when you look at our actual results at the end of every quarter, you see how much we actually do in terms of share repurchases. The \$50 billion is in addition to over \$40 billion that is still remaining from the past authorization that we've received from our Board, right? So it's the total available or outstanding in terms of authorization is over \$90 billion.

And as you look at our run rate during the last several years, you know that, that is a very adequate amount. And as you know, we will provide an additional update a year from now. So nothing really has changed there.

And nothing has changed on our approach for M&A. We've been quite active over the last several years. We purchase companies on a very regular basis. We're always looking for ways to accelerate our product road maps or fill gaps in our portfolio, both on the hardware side, on the software side, on the Services side. So we will continue to do that. And so also on the M&A front, nothing has changed.

Operator

That will come from Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division

I have 2 as well. I guess, first off, on the channel inventory, I was hoping if you could talk about how did channel inventory look like in the March quarter because it sounds like it may be below the historical ranges. And then the discussion you had for June quarter performance of iPhones, what are you embedding from a channel building back inventory levels in that expectation?

Timothy D. Cook

CEO & Director

Amit, it's Tim. If you look at the iPhone channel inventory during Q2, the reduction of it was more than the reduction from the previous year. It's not unusual that we reduce in Q2, and in fact, if you look back on -- generally speaking, in the first half of the calendar year, we reduce channel inventories. During the second half of the calendar year, we generally raise channel inventories. That's a seasonal thing. And I believe -- sitting here today, I believe that will happen this year as well. So hopefully, that answers your question. And by the way, we ended in a comfortable position, so you could conclude from that, that we were within a target range.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division

That's really helpful. And could I just follow up? Tim, I was hoping you could maybe talk a little bit about how do you think about Apple's manufacturing strategy and perhaps need for some diversity, especially given everything the company and everyone has gone through over the last 12 months. How do you think about that? And do you feel comfortable that the supply chain and the manufacturing base is well situated today to launch the traditional fall products that they used to get from Apple?

Timothy D. Cook

CEO & Director

Yes. As you know, our supply chain is global and so our products are truly made everywhere. And I would focus on that versus focus on one element of the manufacturing process, which tends to get more visibility, which is the final assembly. We have some final assembly in the United States. We have final assembly in China as well. I think you'd have to conclude or at least I conclude that if you look at the shock to the supply chain that took place this quarter, for it to come back up so quickly really demonstrates that it's durable and resilient. And so I feel good about where we are. That said, we're always looking at tweaks, and it's just not something we talk about because we view it as confidential and competitive information. And so we will look at the -- as we get out of this totally, we will look to see what we learned and what we should change.

Operator

We'll hear from Jeriel Ong with Deutsche Bank.

Kanghui Ong

Deutsche Bank AG, Research Division

So I want to focus the question on Services. The segment was solid in the quarter in spite overall macro weakness. I can kind of see launch behind it being strong despite product weakness overall. As you kind of look at the rest of the year, do you think that's sustained? Or at some point, does the macro impacts worldwide impact the Services line?

Luca Maestri

CFO & Senior VP

Jeriel, let me take that one. We typically don't give a lot of specifics about our categories. But I've said, as we look into the June quarter, we see 2 distinct trends in our Services business overall. Our ecosystem

is very strong. Our customers are very engaged. We are continuing to grow double digits the number of transacting accounts and paid accounts. And so we expect our digital services to continue at the same level of performance that we have seen during the March quarter. And that includes the App Store, of course, our video business, our Music business, cloud services, so we expect all these businesses to continue to grow very strongly.

Given the overall economic environment, the level of demand right now, there are 2 businesses that we believe are going to be impacted during the June quarter. One of them is Apple Care. Apple Care is essentially comprised of our product repair business and the warranty agreements that we signed with our customers when they purchased our devices. Both these businesses have been affected obviously by the store closures, not only our retail stores but also our partners' points of sale. And obviously, they reduced level of customer traffic because of the social distancing measures, right? And we do expect Apple Care to be affected during the June quarter.

The other business which we think is going to be impacted by the overall economic weakness and the uncertainty on when businesses will reopen is advertising, which is the sum of our advertising business on the App Store, on Apple News and the third-party agreements that we have on the advertising front. So these are 2 things that, during the June quarter, will create a headwind for the Services business.

Kanghui Ong

Deutsche Bank AG, Research Division

Got it. Appreciate that. My second question comes about the overall purchasing decisions consumers are making. So far through April, have you seen increased perhaps downticks across your product line? So for example, somebody might have a shift maybe towards the lower end of the storage mix of certain products. And do you expect that going forward as unemployment uptick and macro impacts kind of layer on through rest of '20?

Timothy D. Cook

CEO & Director

I haven't seen what you're asking, no. I have seen a strong customer response to iPhone SE, which is our most affordable iPhone. But it appears that those customers are primarily coming from wanting a smaller form factor with the latest technology or coming over from Android. And so those are the 2 principal kind of segments versus somebody buying down as you're talking about it. We've also seen -- we launched the iPad Pro in the midst of all of this, and the reception there has also been incredibly good. And that's obviously our top-of-the-line iPad. And so I'm not seeing what you're alluding to at least at this point.

Operator

That will be from JPMorgan's Samik Chatterjee.

Samik Chatterjee

JP Morgan Chase & Co, Research Division

So if I can just start with a question on kind of what you're seeing in China, you mentioned kind of the pickup in activity. But is that driven by more kind of footfall in the stores or what you're seeing relative to online activity and how much of this recovery is driven online? Any thoughts on that, please?

Timothy D. Cook

CEO & Director

Yes. What we saw in China for the full quarter, and I'll speak about Mainland China because I think that's the source of your question, we saw strong results in iPad and in Wearables and in Services. And if you look up underneath the full quarter, we saw a strong January and then a significantly reduced demand in February as the shelter-in-place orders and the lockdowns went into effect in China and the stores closed. And then in March, as stores reopened, we -- the recovery began, and then we've seen further recovery in April. Where that goes, we will see, but that's kind of what we've seen so far there.

To your question about store traffic, store traffic is obviously up from where it was in February, but it is not back to where it was pre the lockdown. There has been, however, more move to online. And as I'd mentioned earlier in my remarks, the -- it's pretty phenomenal actually. Retail had a quarterly record for us during the quarter, and that's despite stores being closed for the 3-week period around the world ex China and then China was closed prior to that 3 weeks. And that's partly because the online store had such a phenomenal quarter, and that included in China but it was also other regions as well. So there is definitely a move. And whether that's a permanent shift, I would hesitate to go that far as I think people like to be out and about. They just know that now is not the time to do that.

Samik Chatterjee*JP Morgan Chase & Co, Research Division*

Got it. And if I can just follow up on your previous comment about the strong demand you're seeing for iPhone SE, just given the price point, I'm wondering if you're expecting any change in terms of the geographic mix of where the demand comes from relative to typically what you see for other iPhones in the lineup just given the lower price point.

Timothy D. Cook*CEO & Director*

I think it plays in every geo, but I would expect to see it doing even better in areas where the median incomes are less. And so we'll see how that plays out. And I expect some fair number of people switching over to iOS. And so it's an unbelievable offer. It's, if you will, the engine of our top phones in a very affordable package. And I think -- and it's faster than the fastest Android phones, and so it's an exceptional value.

Operator

Our last question today will be from Chris Caso with Raymond James.

Christopher Caso*Raymond James & Associates, Inc., Research Division*

I wanted to follow up with another question on iPhone SE and the decision to bring it back and where it sits within the total iPhone strategy. And I guess coupled with the fact that iPhone 11, you made the decision to bring that at a lower price point, what does that tell us with respect to your approach to iPhone pricing and flexibility? Is this helping to add users and kind of bring people into the ecosystem? And if so, what does that imply for gross margins?

Timothy D. Cook*CEO & Director*

Chris, we've always been about delivering the best product at a good price, and that fundamental strategy has not changed at all. As you know, we did have an SE for a while. It's great to bring it back. It was a beloved product, and so I wouldn't read anything into that other than we want to give people the best deal that we can while making the best product.

Christopher Caso*Raymond James & Associates, Inc., Research Division*

Okay. As a follow-up, the follow-up question is on commodity pricing, and I think you had expected to see some commodity price declines through the March quarter. If you could talk about what you expect as you go through the year perhaps in this new environment and again, whether that turned into a tailwind or a headwind for gross margins as you go into the second half.

Timothy D. Cook*CEO & Director*

Yes. For March, Chris, we saw NAND pricing increase slightly, while DRAM and displays and the other commodities declined. For the June quarter, we would expect NAND and DRAM pricing to remain at this historically low level, while displays and most other commodity prices, we expect to decline.

Tejas Gala*Investor Relations Contact*

Thank you, Chris. A replay of today's call will be available for 2 weeks on Apple Podcasts, as a webcast on apple.com/investor and via telephone. The numbers for the telephone replay are (888) 203-1112 or (719) 457-0820. Please enter confirmation code 3229513. These replays will be available by approximately 5:00 p.m. Pacific Time today. Members of the press with additional questions can contact Kristin Huguet at (408) 974-2414. Financial analysts can contact me with additional questions at (669) 227-2402. Thank you again for joining us.

Operator

And that does conclude today's conference. Thank you all for joining us today.

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Apple Inc. NasdaqGS:AAPL

FQ2 2021 Earnings Call Transcripts

Wednesday, April 28, 2021 9:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.99	1.40	▲ 41.41	0.96	5.10	NA
Revenue (mm)	77288.48	89584.00	▲ 15.91	68991.58	335748.67	NA

Currency: USD

Consensus as of Apr-29-2021 1:15 AM GMT

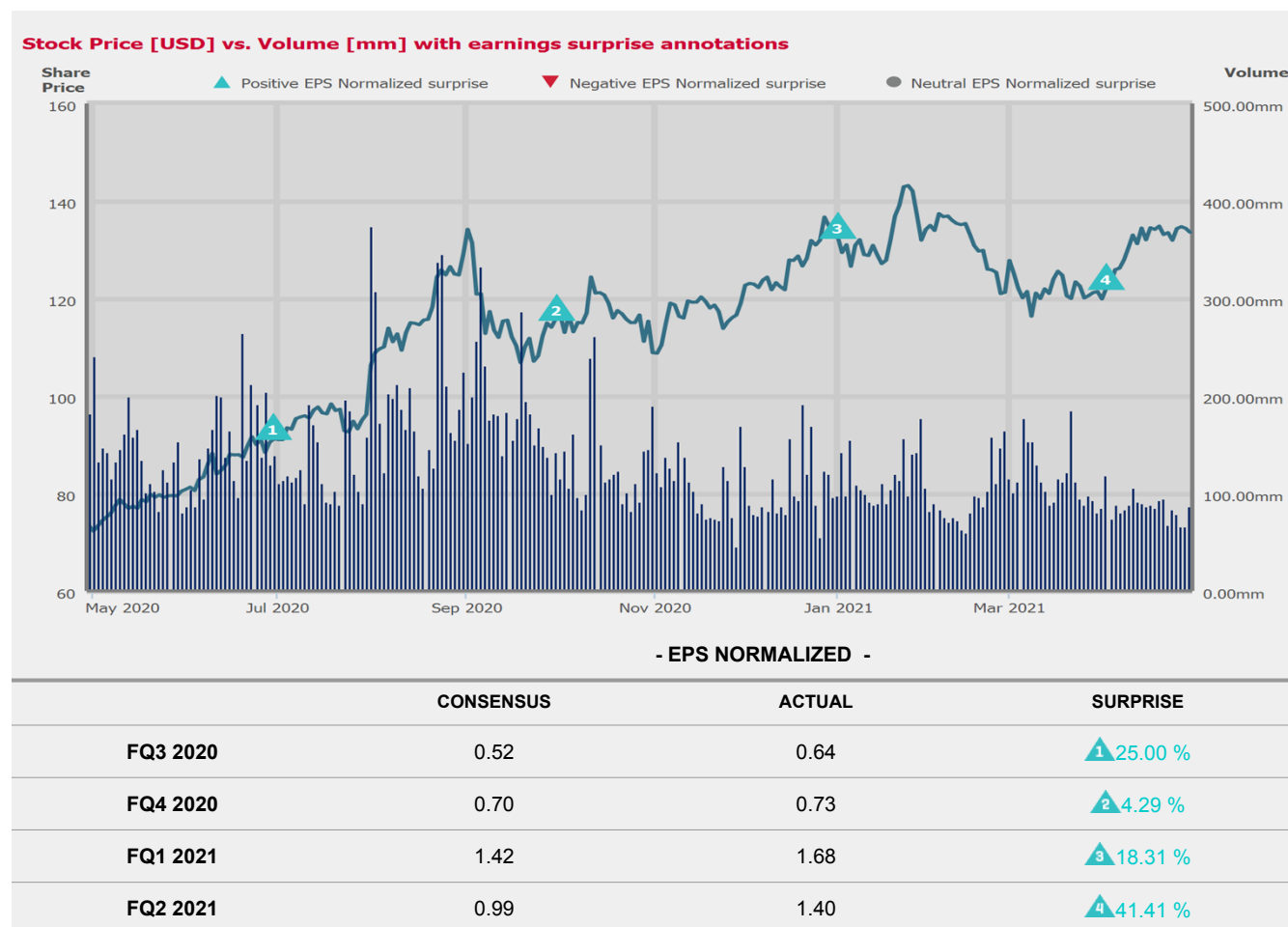


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Presentation

Operator

Good day, and welcome to the Apple Q2 FY 2021 Earnings Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the call over to Tejas Gala, Director, Investor Relations and Corporate Finance. Please go ahead.

Tejas Gala

Investor Relations Contact

Thank you. Good afternoon, and thank you for joining us. Speaking first today is Apple's CEO, Tim Cook, and he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expense, taxes, capital allocation and future business outlook, including the potential impact of COVID-19 on the company's business results of operation. These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast. For more information, please refer to the risk factors discussed in Apple's most recently filed annual report on Form 10-K and the Form 8-K filed with the SEC today, along with the associated press release.

Apple assumes no obligation to update any forward-looking statements or information which speak as of their respective dates. I'd now like to turn over the call to Tim for introductory remarks.

Timothy D. Cook

CEO & Director

Thanks, Tejas. Good afternoon, everyone, and thanks for joining the call today. Apple is proud to report another strong quarter, one where we set new March quarter records for both revenue and earnings, besting our year ago revenue performance by 54%. Reflecting both the enduring ways our products have helped our users meet this moment in their own lives as well as the optimism consumers seem to feel about better days ahead, we set new March quarter records in every geographic segment, and success was broadly distributed across our product categories. Mac and Services delivered all-time record results, and we set new March quarter records for iPhone and Wearables, Home and Accessories.

To provide some color on our results, let's turn to our product categories. We saw a very strong performance for iPhone, which grew 66% year-over-year driven by the strong popularity of the iPhone 12 family. With unmatched 5G capability, the best camera system ever in an iPhone and advanced durability from Ceramic Shield, this family of devices is popular with both upgraders and new customers alike. And just last week, we unveiled an all-new purple finish for iPhone 12 and 12 Mini.

As has been the case throughout the pandemic, iPad and Mac continue to be critically important tools for our customers. Over the past year, tens of millions of iPads and Macs have been deployed to help students learn, creators create and to enhance remote work in all of its forms. This has helped iPad grow very strong double digits to its highest March quarter revenue in nearly a decade.

On Mac, fueled by the M1, we set an all-time revenue record continuing the momentum for the product category. In fact, the last 3 quarters for Mac have been its 3 best quarters ever. Last week, both iPad and Mac took a big step forward. We debuted a radically redesigned brand-new iMac designed around M1's unmatched capabilities, and we've brought M1 to iPad for the first time in the new iPad Pro with 5G capability and a Liquid Retina XDR display.

It was a quarter of sustained strength for Wearables, Home and Accessories, which grew by 25% year-over-year. Apple Watch is a global success story, and the category set March quarter records in each geographic segment, thanks to strong performance from both Apple Watch Series 6 and Apple Watch SE. It's an exciting and busy period ahead for Wearables, Home and Accessories with the launch of the next-generation Apple TV 4K and our newest accessory, AirTag. AirTag builds on the powerful and incredibly useful Find My experience, helping users privately and securely keep track of the items that matter most to them. Third-party accessories and products can also make use of the Find My network, guaranteeing a great experience no matter what products you choose to use.

Turning to Services. We achieved growth of 27% year-over-year and set new records for services in each of our geographic segments. We continue to enhance and improve our current service offerings from Apple Music to Apple News while continuing to launch new services that enhance our customers' lives.

Just last week, we introduced Apple Card Family which reinvents how you can share credit cards and build credit together. We also announced Apple Podcast subscriptions, a global marketplace for listeners to discover premium content from their favorite creators and storytellers.

While we're on the topic of services, in many ways, this quarter showed the unique value to customers created by Apple's belief in the deep integration of hardware, software and services. Across our products and throughout our software ecosystem, we continue to deploy industry-leading new tools to protect users' fundamental right to privacy. In addition to the App Store privacy nutrition labels that we discussed on last quarter's call, we're proud to have launched the full implementation of App Tracking Transparency. This powerful yet simple idea gives users a choice over how their data is used and shared across the apps that they love and use every day.

No matter what device you enjoy it from, it is a milestone period for Apple TV+, racking up many new award nominations and wins, including its first Oscar nominations. Ted Lasso, in particular, has been recognized with a multitude of awards and nominations including most recently, an AFI Program of the Year Recognition, Writers Guild of America Awards and a clean sweep at the Critics Choice Awards. Apple TV+ also continues to be a place where we can tell stories that matter and lift up important voices and experiences like our new upcoming content partnership with Malala; or our latest original documentary special, The Year the Earth Changed, narrated by the legendary David Attenborough and released to commemorate Earth Day.

This is, of course, just one example of how Apple lives its values and operationalizes the idea that to whom much is given, much is expected.

To begin with our environmental efforts, just last week, we marked a milestone Earth Day on multiple fronts. In addition to the progress we've made in our own efforts to achieve our pledge of a net zero carbon footprint by 2030 across our entire supply chain and use of our products, we're proud to play a role in the growing ripple change taking place across the private sector. As of this month, 110 of our suppliers have joined us in our renewable energy commitment, and we will bring online nearly 8 gigawatts of new clean energy, the equivalent of taking 3.4 million gas-powered vehicles off the road each year. Through Apple's \$4.7 billion in green bonds and related efforts, we've supported transformative environmental projects around the world from clean energy initiatives in China to 2 of the world's largest onshore wind turbines in Denmark to 180-acre solar project outside Reno, Nevada and many more.

We're also keenly focused on how this wave of green innovation can lead to equitably shared prosperity. Through our new \$200 million Restore Fund, we're helping local and rural communities around the world build sustainable industries around work in forests, creating opportunities and removing up to 1 million metric tons of carbon from the atmosphere every year. And here in the United States, we started a green impact accelerator, investing and supporting minority-owned businesses at the forefront of environmental fields.

As we look forward to WWDC, we're taking new steps to foster -- to support and foster the unmatched community of developers we work with here in the United States and around the world. I'm particularly excited about our inaugural Entrepreneur Camp for black founders and developers. Building on the success of our Entrepreneur Camp program, which we began in 2019, this program gives this profoundly innovative community of developers the chance to develop next-level technical skills through hands-on technology labs, and with our partners at Harlem Capital, it also shares insights and mentorship on building and scaling an app business.

We were proud to announce that we have expanded and accelerated our commitment to the U.S. economy. Over the next 5 years, we will invest \$430 billion, creating 20,000 jobs in the process. The investments will support American innovation and drive economic benefits in every state, including a new North Carolina campus and job creating investments in innovative fields like silicon engineering and 5G technology.

Looking forward, whether you're running a business or just hoping to see family again after more than a year, it's tempting at this moment to let hope about the end of the COVID-19 pandemic outstrip clear-eyed realism about the challenges we still face. In many places around the world, new waves of infections driven by even more infectious variants of the virus are driving new lockdowns. Instead of simply assuming that the end is in sight, we at Apple are doing our part to make it a reality, beginning with an enduring and uncompromising commitment to the health and safety of our teams, and extending

well beyond our walls into the communities where we work. We also want to do everything we can to connect users to life-saving vaccinations that are in ever greater supply. Through Apple Maps, for example, we now showcase vaccine site locations here in the United States, building on our maps of testing locations in many countries around the world.

It's worth remembering for much more than financial reasons or year-ago compares, just how we felt at this time last year when everything we knew had to change: Planes sat grounded, entire business districts were empty and silent; people left groceries or care packages sitting in the garage or in the hall overnight in recognition of all that we didn't know and therefore, had to imagine. Thanks to researchers and scientists, doctors and nurses, everyone who can put a shot in an arm and even just check a name off a list, we have reached new days of hopeful resolve.

Our work is not done, but as I said a year ago, while we can't say for sure how many chapters are in this book, we can have confidence that the ending will be a good one. With that, I'll hand things over to Luca.

Luca Maestri
CFO & Senior VP

Thank you, Tim. Good afternoon, everyone. We are extremely pleased to report record results for our March quarter despite continued uncertainty in the macro environment. We've been operating in new ways for over a year, and we could not be more proud of the way our team continues to execute and innovate at unprecedented levels.

Our revenue reached a March quarter record of \$89.6 billion an increase of over \$31 billion or 54% from a year ago. We grew very strong double digits in each of our product categories, with all-time records for Mac and for Services and March quarter records for iPhone and for Wearables, Home and Accessories. We also set new March quarter records in every geographic segment with growth of at least 35% in each one of them.

Products revenue was a March quarter record of \$72.7 billion, up 62% over a year ago. As a result of this level of sales performance and the unmatched loyalty of our customers, our installed base of active devices reached a new all-time record in each of our major product categories. Our services set an all-time record of \$16.9 billion, growing 27% over a year ago. We established new records in each geographic segment and in most service categories. I will provide more details about the performance of our services business later.

Company gross margin was 42.5%, up 270 basis points from last quarter driven by cost savings, a strong mix and favorable foreign exchange. Products gross margin was 36.1%, growing 100 basis points sequentially also thanks to cost savings and FX, partially offset by seasonal loss of leverage. Services gross margin was 70.1%, up 170 basis points sequentially and mainly due to a different mix. Net income of \$23.6 billion, diluted earnings per share of \$1.40 and operating cash flow of \$24 billion were all March quarter records by a wide margin.

Let me get into more detail for each of our revenue categories. iPhone revenues had a March quarter record of \$47.9 billion, growing 66% year-over-year as the iPhone 12 family continued to be in high demand. Performance was consistently strong across the world as we grew strong double digits in each geographic segment and set March quarter records in most markets we track. Thanks to the exceptional loyalty of our customer base and strength of our ecosystem, our active installed base of iPhones reached a new all-time high. In the U.S., the latest survey of consumers from 451 Research indicates customer satisfaction of over 99% for the iPhone 12 family.

Turning to Services. We reached an all-time revenue record of \$16.9 billion with all-time records for the App Store, cloud services, music, video, advertising and payment services. Our new service offerings, Apple TV+, Apple Arcade, Apple News+, Apple Card, Apple Fitness+ as well as the Apple One bundle, continue to scale across users, content and features and are contributing to overall services growth. The key drivers for our services business all continue to move in the right direction.

First, our installed base growth has accelerated and reach an all-time high across each major product category. Second, the number of both transacting and paid accounts on our digital content stores reached a new all-time high during the March quarter, with paid accounts increasing double digits in each of our geographic segments. Third, paid subscriptions continued to show strong growth. During the March quarter, we added more than 40 million paid subs sequentially, and we have now reached more than 660 million paid subscriptions across the services on our platform. This is up 145 million from just a year ago and twice the number of paid subscriptions we had only 2.5 years ago.

Finally, we're adding new services that we think our customers will love, while also continuing to improve the breadth and quality of our current service offerings. For example, Apple Arcade launched its biggest expansion yet adding incredibly

fun games to the catalog, including new exclusive Arcade originals, along with 2 entirely new categories, App Store Greats and Timeless Classics. Apple Pay continues to expand geographically, launching in Mexico and in South Africa, bringing our payment service to 6 continents.

Wearables, Home and Accessories grew 25% year-over-year to \$7.8 billion, setting new March quarter revenue records in every geographic segment. Apple Watch continues to extend its reach, with nearly 75% of the customers purchasing Apple Watch during the quarter being new to the product. We're very excited about the future of this category and believe that our integration of hardware, software and services uniquely positions us to provide great customer experiences in this category.

Next, I'd like to talk about Mac. We set an all-time revenue record of \$9.1 billion, up 70% over last year, and grew very strongly in each geographic segment with all-time revenue records in Europe and rest of Asia Pacific and March quarter records in the Americas, Greater China and Japan. This amazing performance was driven by the very enthusiastic customer response to our new Macs powered by the M1 chip.

iPad performance was also outstanding with revenue of \$7.8 billion, up 79%. We grew very strongly in every geographic segment with an all-time record in Japan and a March quarter record in rest of Asia Pacific.

Both Mac and iPad are incredibly relevant products for our customers in the current working and learning environments, and we are delighted that the most recent surveys of U.S. consumers from 451 Research measured customer satisfaction at 91% for Mac and 94% for iPad. With this level of customer satisfaction, and with around half of the customers purchasing Mac and iPad during the quarter being new to that product, the active installed base for both products continues to grow nicely and reached new all-time highs.

In the enterprise market, customers across many industries are accelerating their adoption of iPhone 12 and 5G as a key platform for the future of their business. Delta Airlines, for example, is putting iPhone 12 and 5G connectivity into the hands of flight attendants so they can provide the best passenger service possible as air travel rebounds. Openreach in the U.K. has started equipping tens of thousands of field engineers with iPhone 12 to speed up their deployment of broadband services to homes around the country. And UCHHealth, a large health care provider in Colorado, was able to reduce per patient vaccination time from 3 minutes to only 30 seconds largely by moving from PC stations to iPhones. This has allowed their staff to rapidly scan and register new patients and vastly increase their daily vaccination capacity.

Let me now turn to our cash position. We ended the quarter with over \$204 billion in cash plus marketable securities. We issued \$14 billion of new term debt and retired \$3.5 billion of term debt, leaving us with total debt of almost \$122 billion. As a result, net cash was \$83 billion at the end of the quarter.

This strong position allows us to continue to invest confidently in our future, while also returning value to our shareholders. We are innovating and investing at an unprecedented pace, including accelerating our investment in the United States with our new commitment to contribute more than \$430 billion and 20,000 jobs to the country over the next 5 years.

As we continue to execute at an extremely high level, we were also able to return nearly \$23 billion to shareholders during the March quarter. This included \$3.4 billion in dividends and equivalents and \$19 billion through open market repurchases of 147 million Apple shares. We continue to believe there is great value in our stock and maintain our target of reaching a net cash neutral position over time.

Given the confidence we have in our business today and into the future, our Board has authorized an additional \$90 billion for share repurchases. We're also raising our dividend by 7% to \$0.22 per share, and we continue to plan for annual increases in the dividend going forward.

As we move ahead into the June quarter, I'd like to review our outlook, which includes the types of forward-looking information that Tejas referred to at the beginning of the call. Given the continued uncertainty around the world in the near term, we are not providing revenue guidance, but we are sharing some directional insights assuming that the COVID-related impacts to our business do not worsen from what we are seeing today for the current quarter.

We expect our June quarter revenue to grow strong double digits year-over-year. However, we believe that the sequential revenue decline from the March quarter to the June quarter will be greater than in prior years for 2 reasons. First, keep in mind that due to the later launch timing and strong demand, iPhone only achieved supply-demand balance during the March quarter. This will cause a steeper sequential decline than usual. Second, we believe supply constraints will have a revenue impact of \$3 billion to \$4 billion in the June quarter.

We expect gross margin to be between 41.5% and 42.5%. We expect OpEx to be between \$11.1 billion and \$11.3 billion. We expect OI&E to be around \$50 million and our tax rate to be around 14.5%. Finally, reflecting the approved 7% dividend increase I just mentioned, today, our Board of Directors has declared a cash dividend of \$0.22 per share of common stock payable on May 13, 2021, to shareholders of record as of May 10, 2021.

With that, let's open the call to questions.

Tejas Gala

Investor Relations Contact

Thank you, Luca. [Operator Instructions] Operator, may we have the first question, please?

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Shannon Cross with Cross Research.

Shannon Siemsen Cross
Cross Research LLC

Tim, I had sort of a big picture question on iPhone. I'm just curious, there are so many different things happening in this cycle, 5G, pandemic. How are you thinking about the opportunity for refreshing the installed base and attracting new customers. And are you seeing lives shorten given some of the programs that are being put out there by the carriers and by yourself? Just kind of maybe big picture, if you can talk about what you're seeing in terms of iPhone out there in the market.

Timothy D. Cook
CEO & Director

Sure, Shannon. We saw double-digit increases on a year-over-year basis on both the new to iPhone and upgraders. So -- and in fact, in the March quarter, there was actually a record number of upgraders for a March quarter. And so we like what we see. It's obviously the early days of 5G. Different countries are in different points. But penetration is still -- on a global level, is still low at this point. And so a lot of the 5G upgrades will be in front of us, not behind us.

You see in China, things have moved quickly to 5G. They're moving quickly in the United States. But a lot of the other regions are slower to adopt and slower to gain coverage in 5G.

Shannon Siemsen Cross
Cross Research LLC

Okay. And then, Luca, can you talk about gross margin? I mean 42% is higher than it's been that I can kind of remember actually at this point. So maybe if you talk about the drivers of gross margin. And maybe if there were any offsets from higher component costs or the logistics costs that obviously were overshadowed by currency and other things.

Luca Maestri
CFO & Senior VP

Yes, Shannon. Yes, we did 42.5% during March, and we've guided to similar, slightly lower levels for June. So for March, we were up 270 basis points sequentially, really driven by 3 major factors. Cost savings, which has been good for us during the cycle. A really strong mix, a strong mix on iPhone, but in general, across all product categories, and that obviously was helpful. And foreign exchange sequentially, again, from December to March, was favorable 90 basis points. So that helped as well. So those are the 3 major factors there. As we transition into June, as you know, that we will expect some level of deleverage but that will be offset by cost savings. Foreign exchange doesn't have much of an impact as we go from March to June.

Operator

We'll now take our next question from Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani
Evercore ISI Institutional Equities, Research Division

I have 2 as well. First one, just on Services. I think 90 days ago, the expectation was that line item would decelerate a little bit into the March quarter. It turned out it actually accelerated for us. I'd like to just understand what do you think drove that acceleration specifically? And is mid-20% sort of the growth norm as we go forward for Services?

Luca Maestri
CFO & Senior VP

So Amit, the -- our Services business did better than what we were expecting when we had the last call in January. It was stronger across the board. One of the things that we've noticed is that throughout COVID was that obviously digital

services have done very well. And then we've had a couple of categories like Apple Care because many of the points of sale and stores were closed and advertising because of the reduced economic activity that were negatively affected during COVID.

During the March quarter, we've seen a return to growth on Apple Care and obviously, we've reopened a lot of the stores during the course of the quarter. And advertising, obviously, consumer sentiment has improved and advertising is coming back. And so the combination of these factors really delivered this very, very strong performance during the March quarter.

As we look ahead, as you know, we don't provide specific guidance for our product categories. But in general, I talked during our prepared remarks, I mean, there are a number of things that we always look at around the Services business, how many new paid accounts do we have, what number of new subscriptions do we get that -- above all, is our installed base continuing to grow? Are we adding new services? Are we improving the quality of the existing services? And so when we look at all these fundamental vectors of our Services business, obviously, we feel very good. We feel very good about it.

Amit Jawaharlal Daryanani

Evercore ISI Institutional Equities, Research Division

Got it. That's helpful. And then, Tim, if I could follow up with you. It seems like engagement with iPhones and Apple devices generally has gone up materially over the last 12 months. And I don't think replacement cycles, at least in the data we see, has shrunk or changed that much at the end of the day. I'm wondering, does that combination of increased usage, replacement cycles haven't changed, end up in iPhones potentially growing on a multiyear basis? Because, usually, I would imagine if I'm using something more I have to replace it more often. So I'd love your perspective on it.

Timothy D. Cook

CEO & Director

Yes. We're clearly seeing strong performance in both the new to iPhone or the switcher component and upgraders, as I'd mentioned before. And in fact, the upgrader was the best March quarter that we've ever had in -- and so that speaks to what you're seeing, I think, a lot.

It's difficult with just this far into the cycle to make a statement about the cycle in general because keep in mind that we just launched midway through the Q1 period. And so we've only been operating for 4.5 months or so. But clearly, we like what we see right now a lot. If you look at how the iPhone did around the world, we had the top 5 models of smartphone in the U.S., the top selling, the top 2 in urban China, 4 out of the top 5 in Japan, the top 4 in the U.K. and the top 6 in Australia. And so it was a sort of across the board in some really key countries, we did really, really well. I do think that the 5G cycle is important. And we're in the early days of it, frankly.

Operator

We'll take our next question from Katy Huberty from Morgan Stanley.

Kathryn Lynn Huberty

Morgan Stanley, Research Division

This was a pretty unbelievable quarter, and investors are going to ask about the sustainability of current demand trends, especially as you lap some of the benefits from COVID in areas like services and Mac later this year. So I know you don't guide beyond -- or provide an outlook beyond the next quarter. But can you talk from a high level over the next year, which segments do you see the opportunity to maintain strong revenue growth versus where is it reasonable to assume there will be some digestion as consumers shift their spending priorities? And then I have a follow-up for Luca.

Timothy D. Cook

CEO & Director

If you sort of look at the different products, iPhone, I've already mentioned some of the great momentum that we had there. Keep in mind that the compare that we're running to would be the quarter, the Q2 of last year is the quarter that China would have entered a shutdown first and then the rest of the world entered the shutdown in middle part of March. And so part of the growth is compare -- is the comparison point. But that said, the results were fabulous across the board.

The shortages that Luca spoke about in the color that he provided on the future, affect primarily the iPad and the Mac. And so we'll have some challenges in there, and challenges in meeting the demand that we've got.

The demand feels very strong right now. Both on the Mac side, you have the combination of M1 and work from home and remote learning. And then iPad, you've got remote learning and work from home as well. And the product that we just announced is really killer, the iPad Pro with the M1 in it. And so there's a lot of great things of the strength of the product cycle in addition to the trends that we're seeing in the marketplace.

And where this pandemic will end, it seems like many companies will be operating in a hybrid kind of mode. And so it would seem that work from home and the productivity of working from home will remain very critical.

If you look at Wearables then, the watch had a fabulous quarter. And I still think we're in the early innings on the watch. The number of new -- people that are new to the watch is almost 3 out of 4. And so this is a long way from being a mature market. And so -- and then the Services by itself has really accelerated. And so all in all, we feel very, very good.

Kathryn Lynn Huberty
Morgan Stanley, Research Division

And then, Luca, as I look at inventory plus vendor nontrade receivables, that grew only about 8% this quarter which is a big deceleration from last quarter. Should we read into that as a leading indicator for how we should think about the revenue growth deceleration in the business as the world normalizes? Or were there some supply disruptions during the quarter that caused you to drain inventory and create that tightness that you're talking about for June?

Luca Maestri
CFO & Senior VP

No. On -- as you think about the June quarter, Katy, I would point you to what we said in our prepared remarks around the 2 factors that will influence our normal seasonality, right? One is the fact that iPhone -- we launched iPhone later than usual during this cycle. And so we reached supply-demand balance only during the March quarter, which makes obviously the sequential decline steeper than usual. And then this \$3 billion or \$4 billion of supply constraints that Tim just said, primarily on iPad and Mac. So as you look at your model and you obviously can look at our numbers that we've done in the past, I think you can try to gauge that.

From a channel inventory standpoint, we did what we normally do during a March quarter. So we reduced inventory as it's typical on iPhone. We exited within our target range. So I would say that on the inventory side, it was pretty straightforward. Obviously, given that the supply constraints are on the iPad and on the Mac, we wish we had more inventory of iPad and Mac. But this is all a function of high demand for all our products.

Operator

We'll take our next question from Wamsi Mohan with Bank of America.

Wamsi Mohan
BofA Securities, Research Division

Tim, your content offerings are still at very compelling price points. And you've seen other content providers, whether it be Spotify, Hulu, Netflix, all announced price increases recently. I'm just wondering how you're thinking about pricing as it pertains to your offering here? And if you could share any stats around the uptake of TV+ paid subs that would be great. And I have a follow-up for Luca.

Timothy D. Cook
CEO & Director

TV+ -- let me start with TV+. TV+ is going very well. As you know, the objective and the philosophy that we've had on TV+ is to create high-quality original content and to be one of the most desired platforms for storytellers. And I see that happening day by day as we sign more shows and more storytellers including Malala as I had mentioned in my opening comments.

To date, we've received -- the Apple Originals have received 352 award nominations and had 98 wins. And this is from Oscar nominations to Emmy Awards to Critic Choice awards and all the rest. And we've got some shows that are -- have

gotten significant buzz like Ted Lasso and The Morning Show and Defending Jacob and many others. And so we feel really good about where we are. We're not releasing subscriber numbers. But we feel good about where we are.

In terms of other services and pricing, I don't have anything to announce today. We try to give the customer a great value. And we feel that we're doing that in the -- with the prices that we've got. And we'll see where we go from here.

Wamsi Mohan

BofA Securities, Research Division

Okay. As my follow-up, Luca, on the June quarter guide, when you talk about the sequential decline being a little bit about perhaps the 13% or low-teens percent that we've seen historically, are the supply constraints of the \$3 billion, \$4 billion impact included in that? Or is that in addition to sort of the more than average sequential decline that you're referring to? And any color on what specifically is driving the supply constraints of the subcomponent level?

Luca Maestri

CFO & Senior VP

The -- yes. So when you look at our normal seasonality, and you've mentioned a percentage there that is really an average of several years, what we're saying is that we believe that the sequential decline this year is going to be higher than that. And it's a combination of the 2 factors, right? One is the timing of the launch and then the very high demand for iPhone during the March quarter. And the \$3 billion to \$4 billion supply constraints that we mentioned. Yes, and the constraints come from the semiconductor shortages that are affecting many, many industries, and it's a combination of the shortages as well as the very, very high level of demand that we are seeing for both iPad and Mac. For Mac, for example, if you just -- just to keep it into context, the last 3 quarters of Mac have been the best 3 quarters ever in the history of the product, right? So we are experiencing an incredible level of demand, which certainly is favored by working from home and learning from home environment, but also by the incredible amount of new products and innovation that we put into the products that we launched during the last couple of quarters.

Operator

We'll take our next question from Aaron Rakers with Wells Fargo.

Aaron Christopher Rakers

Wells Fargo Securities, LLC, Research Division

Congratulations on the great quarter. I wanted to go back to iPhone. As we think about the iPhone 12 cycle, appreciating that you guys don't give actual shipment numbers, it would appear though that the mix has been quite healthy. So I'm wondering if you could give us any context of what in this cycle you're seeing in terms of the mix relative to past cycles? Is that mix sustainable? I'm just trying to understand kind of the mix of -- within the iPhones and how that's driving, I guess, particularly gross margin. And I have a follow-up.

Timothy D. Cook

CEO & Director

Aaron, let me give you a little color on that. The iPhone 12 of the -- the iPhone 12 family are or more broadly affect all iPhones, the iPhone 12 is the most popular. But we did see very strong sales of the Pro portion of the family as well, the Pro plus the Pro Max. And so the revenue that you're seeing is a function of unit growth and revenue -- revenue per unit growth. Does that help?

Aaron Christopher Rakers

Wells Fargo Securities, LLC, Research Division

Yes. Can you give any context of how that might have changed this cycle relative to the prior cycles? Have we seen kind of a structural change to the higher band of the product category that you believe can be sustained going forward?

Timothy D. Cook

CEO & Director

We don't predict going forward other than for our own internal use. But we're really happy with the results.

Aaron Christopher Rakers

Wells Fargo Securities, LLC, Research Division

Okay. And then as a quick follow-up back to the supply constraints. I guess it's hard to kind of see again, looking forward beyond this quarter. But what's your best assessment of when maybe the supply constraints could ease? Do you have any views of just the industry in general, overcoming some of the supply constraint dynamics?

Timothy D. Cook
CEO & Director

Most of our issue is on legacy nodes. And so on legacy nodes, there are many different people, not only in the same industry, but across other industries that are using legacy nodes. And so in order to really answer that question on -- accurately, we would need to know the true demand from each of these players and how that's going to change over the next few months. And so it's very, very difficult to give you a good answer. I think we have a good handle on our demand. But what everybody else is doing, I don't know. And so we will do our best. That's what I can tell you.

Operator

We'll take our next question from Harsh Kumar with Piper Sandler.

Harsh V. Kumar
Piper Sandler & Co., Research Division

Congratulations on a very nice quarter. Question on semis supply as well. You just beat by a substantial margin on the top line in the March quarter. I'm curious what went in your favor to be able to secure that kind of supply that you were able to beat by, I think it was \$11 million or so? And then I had a follow-up.

Timothy D. Cook
CEO & Director

We did not have a material supply shortage in Q2. And so how were we able to do that? You wind up collapsing all of your buffers and offsets. And that happens all the way through the supply chain. And so that enables you to go a bit higher than what we were expecting to sell when we went into the quarter 90 days ago.

Harsh V. Kumar
Piper Sandler & Co., Research Division

That's very helpful. And then for my follow-up, I know there's a lot of moving parts, Tim, but with the economy sort of reopening here in the U.S., and you mentioned about supply constraints possibly on the Mac and the iPad. I was curious if I can get your thoughts, maybe just color-wise, on what you would expect for those 2 categories, Macs and the iPads in the second half of this year.

Timothy D. Cook
CEO & Director

Well, we don't predict or rev guide to product-level detail. We're not even guiding to the top level at this point because of COVID. And so I'll sidestep that question. But I would point to Luca's point earlier about the shortages and those shortages primarily affect iPad and Mac. So we expect to be supply gated, not demand gated.

Operator

We'll take our next question from Krish Sankar with Cowen & Company.

Krish Sankar
Cowen and Company, LLC, Research Division

Congrats on a fantastic quarter. First question for Tim or Luca. The Greater China sales were very strong in the March quarter. Can you give some color on what drove this strength? Which hardware products or services enabled the solid outperformance in China? And then I had a follow-up.

Timothy D. Cook
CEO & Director

We were very pleased with our performance in China. We set a March quarter revenue record and grew strong double digits across each of the product categories. And so the revenue growth was broad. We've been especially pleased by the

customer response in China to the iPhone 12 family. And as I had mentioned earlier, you have to remember that China entered the shutdown phase earlier in Q2 of last year than other countries. And so they were relatively more affected in that quarter, and that has to be taken into account as you look at the results.

As I mentioned earlier, we had the top 2 selling smartphones in urban China, so we're very proud of that. And iPad, Mac both had enormously positive quarters with great strength across the board. And we're seeing a strong reception to the new iPad Pro as well that we just announced. A lot of great comments. And about 2/3 of the people buying Mac and iPad were buying them for the first time. And so we're attracting some new customers in China, which is really important to us.

Krish Sankar

Cowen and Company, LLC, Research Division

All right. That was very helpful, Tim. And then maybe as a follow-up, I kind of have like a big picture philosophical question, and to the extent you can answer this. One of the concerns many investors have is about the overhang of regulatory risk. I understand it's very hard to handicap that. But I'm kind of curious, do you think giving more public disclosure on your Services business like App Store would help alleviate some of those concerns? Or do you think that's revealing a lot of competitive details. But kind of curious to know what you think on services disclosure.

Timothy D. Cook

CEO & Director

I think with the regulatory questions and scrutiny, we have to make sure that we're telling our story and why we do what we do, and we're very focused on doing that. If we feel that more disclosure would help, we would obviously move in that direction. The App Store and other parts of Apple are not cast in concrete. And so we can move and are flexible with the times. For example, in the App Store, as you know, just a couple of quarters ago, we lowered the commission rate for small developers to 15%. So that was an example of moving with the times, and we've gotten a great, great reception to that. And so we continue to learn, and I think it's very important that we're very clear about why we do what we do. The idea behind curating the App Store in order to get the privacy and security that our customers want, I think is very important, and we have to convey that in a very straightforward manner.

Operator

We'll take our next question from Kyle McNealy with Jefferies.

Kyle P. McNealy

Jefferies LLC, Research Division

One of the things we've been positive about is how growing iPhone sales can pull along Watch and AirPods sales as well as customers shop the whole store. But you mentioned through COVID that accessories do much better in a physical store environment, and that's been hard due to the shutdowns, obviously. So my question is, have you seen any improvement in the attach rate for Watch and AirPods with iPhone? And can it get a lot better from here as the environment gets closer to normalization?

Timothy D. Cook

CEO & Director

I think we get a lot of benefit from our stores when they're open and are fully operational. And we're in better shape for parts of Q2 than we were previously, but we're still operating with a limited operational model in many stores. And there's still some stores today that are closed. Like stores in Michigan and stores in France and so forth. And so I think it will take some amount of time, but my view would be as the stores get back up to speed, fully up to speed, we should be able to increase some of the accessory sales. Although I think we're doing fairly well at the moment. So it's not something that we're not doing well. Online has been much more beneficial and much more productive than we would have guessed going into this.

Operator

We'll take our next question from David Vogt from UBS.

David Vogt

UBS Investment Bank, Research Division

Congratulations on a great quarter. Maybe if I could just ask a question. I know it's early days, but any commentary, color from maybe the developer community on App track -- on ATT and kind of what the initial feedback and data might look like that you could share with us?

Timothy D. Cook
CEO & Director

Our -- ATT's focus is really on the user and giving the user the ability to make a decision about whether they want to be tracked or not. And so it's putting the user in the control. Not Apple, not another company, but the user of where it should be. And so that's really the focus of it. And the feedback that we've gotten from users, both before it went live when it was in the planning stages and so forth and after, has been tremendous. And so we're really standing up on behalf of the consumer here.

David Vogt
UBS Investment Bank, Research Division

Maybe just as a quick follow-up, Tim. Can you kind of discuss any sort of -- what the downloads have looked like. I know it just rolled out earlier this week and sort of the acceptance by the consumer at this point. Any sort of metrics that you can share with us, whether it's sort of an opt-in or opt-out sort of view from the consumer perspective?

Timothy D. Cook
CEO & Director

I don't even know the answer to that. It's not something that we would have predicted beforehand. And frankly, even if it's very low of people that don't want to be tracked, it's worth doing because of the -- those people should have the -- should make their own mind up, whether they would like to be tracked or not.

Operator

We'll take our next question from Samik Chatterjee from JPMorgan.

Samik Chatterjee
JPMorgan Chase & Co, Research Division

I have a couple. And just wanted to get into the performance by geography here a bit. And Europe really exceptional results, particularly for this time of the year. Tim, I know you mentioned some of the 5G iPhone upgrades are in front of you, and I would assume Europe is kind of in that category. But curious to hear or maybe if you can double-click on what's driving the exceptional growth here in Europe. And like are we -- are consumers moving to 5G phones even though some of the service provider plans are not rolled out? Or are we still expecting that to be much more in front of us?

Luca Maestri
CFO & Senior VP

Samik, I'll take that one. You're right. I mean we had great performance in Europe. We grew 56% during the quarter. And it was probably one of the geos where we actually saw results that were better than even our own expectations. We grew very strong double digits across the board, every product category. Particularly, I would say, iPad and Mac. They really was very, very strong. Again, obviously, Europe has been affected by lockdowns -- more than most parts of the world, the lockdowns have lasted longer than here in the United States, for example. Tim was mentioning there are places in Europe still today where our stores are closed. And fortunately, we have a very strong online business that has really helped us. But working from home, learning from home, limited entertainment options, that has all played in our favor.

Keep in mind that our Europe segment is a very broad version of Europe because it includes Western Europe, which has done very, very well. And then Eastern Europe and it goes into the Middle East. Even India is part of Europe. And those emerging markets have done incredibly well, significantly better than company average. So very, very pleased with some of the results in India, for example, Russia, Middle East in general. So it's been very broad, both across product categories and across countries in Europe.

Samik Chatterjee
JPMorgan Chase & Co, Research Division

Okay. Got it. And just a quick follow-up for you, Luca. I think overall, just wanted to understand the implication of the investment plans that you announced recently for the U.S., the \$430 billion over a multiyear period. Getting some questions from investors of how to think about the implication on the run rate of operating expenses for the company.

Luca Maestri
CFO & Senior VP

If you remember, we announced back in 2018 that we were making a very sizable commitment to the United States. We -- at the time we announced \$350 billion of investment over the following 5 years. And during these 3 years, since then, we've overachieved on those commitments, and we felt it was the right time to update these type of investments. And they span from, obviously, the investment that we made directly at Apple. For example, we talked about the creation of 20,000 new jobs at Apple over the next 5 years in the United States. And of course, our business has grown. And so our commitment, for example, to U.S. suppliers grows over time, and that shows in the higher numbers. In the meantime, we've got into new businesses, for example, Apple TV+, a lot of the content that we developed for our TV service is produced here in the United States. And so that's additional investment here in the United States.

From an OpEx standpoint, I think as you've seen this year, we're getting a lot of leverage. This is one of those years we said many times, sometimes our OpEx grows faster than revenue, and there are some other cycles where the opposite happens. We are growing revenue this year much faster than our OpEx increase. But we want to continue to make all the necessary investments into the business. We will never underinvest in our business. And so you will continue to see the fact that we -- we will continue to grow our operating expenses, particularly on the R&D side, which continues to be the core of the company.

Tejas Gala
Investor Relations Contact

Thank you, Samik. A replay of today's call will be available for 2 weeks on Apple Podcast, as a webcast on apple.com/investor and via telephone. The numbers for the telephone replay are (888) 203-1112 or (719) 457-0820. Please enter confirmation code 5799138. These replays will be available by approximately 5:00 p.m. Pacific Time today. Members of the press with additional questions can contact Kristin Huguet at (408) 974-2414. Financial analysts can contact me with additional questions at (669) 227-2402. Thank you again for joining us.

Operator
Thank you. That does conclude today's Apple Q2 FY 2021 Earnings Conference Call. We thank you for your participation, and you may now disconnect.

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Apple Inc. NasdaqGS:AAPL

FQ3 2021 Earnings Call Transcripts

Tuesday, July 27, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.01	1.30	▲28.71	1.13	5.18	NA
Revenue (mm)	73466.11	81434.00	▲10.85	81522.36	355638.05	NA

Currency: USD

Consensus as of Jul-27-2021 6:46 AM GMT

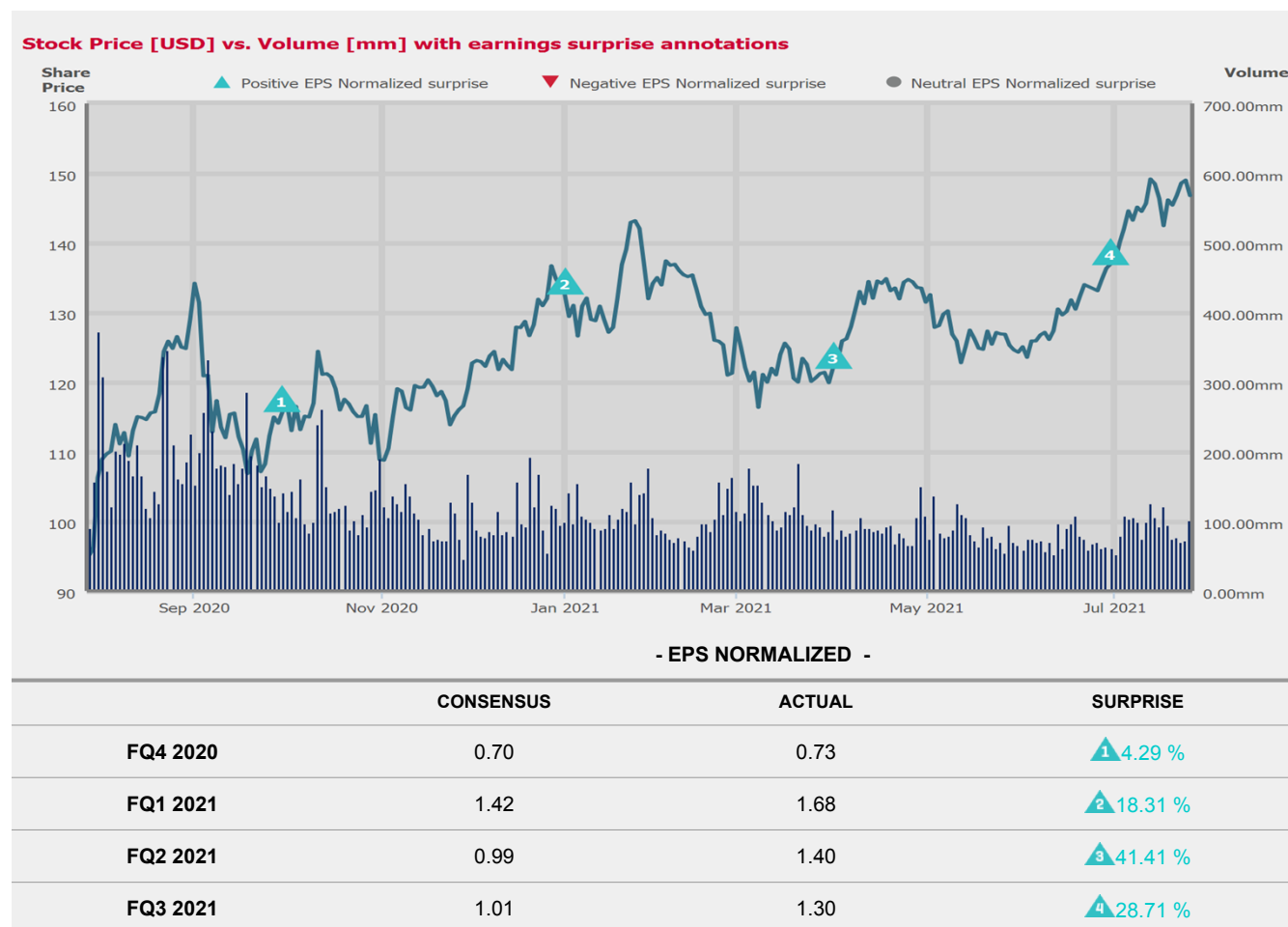


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Presentation

Operator

Good day, and welcome to the Apple Q3 FY 2021 Earnings Conference Call. Today's call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the call over to Tejas Gala, Director, Investor Relations and Corporate Finance. Please go ahead.

Tejas Gala

Investor Relations Contact

Thank you. Good afternoon, and thank you for joining us. Speaking first today is Apple's CEO, Tim Cook; and he'll be followed by CFO, Luca Maestri. After that, we'll open the call to questions from analysts.

Please note that some of the information you'll hear during our discussion today will consist of forward-looking statements, including, without limitation, those regarding revenue, gross margin, operating expenses, other income and expenses, taxes, capital allocation and future business outlook, including the potential impact of COVID-19 on the company's business and results of operations.

These statements involve risks and uncertainties that may cause actual results or trends to differ materially from our forecast. For more information, please refer to the risk factors discussed in Apple's most recently filed annual report on Form 10-K and the Form 8-K filed with the SEC today, along with the associated press release. Apple assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates.

I'd like to now turn the call over to Tim for introductory remarks.

Timothy D. Cook

CEO & Director

Thanks, Tejas. Good afternoon, everyone. Today, Apple is reporting a very strong quarter with double-digit revenue growth across our product and services categories and in every geographic segment.

We set a new June quarter revenue record of \$81.4 billion, up 36% from last year, and the vast majority of markets we track grew double digits, with especially strong growth in emerging markets, including India, Latin America and Vietnam. Total retail sales also set a June quarter record, and almost all of our retail stores have now opened their doors.

This quarter saw a growing sense of optimism from consumers in the United States and around the world, driving renewed hope for a better future and for all that innovation can make possible. But as the last 18 months have demonstrated many times before, progress made is not progress guaranteed. An uneven recovery to the pandemic and a Delta variant surging in many countries around the world have shown us once again that the road to recovery will be a winding one.

In the midst of that enduring adversity, we are especially humbled that our technology has continued to play a key role in keeping our customers connected. Just last month, it was great to be back with our teams and customers for the opening of our newest retail store in Los Angeles, Apple Tower Theatre. It was a hopeful reminder of the energy and sense of community shared spaces bring and how appreciative we all are now of the simple privilege of talking to one another face-to-face.

As we look forward to more in-person interactions in the future, we're doubling down on innovation and doing all we can to help chart a course to a healthier and more equitable world. I'll have more to say about our work in those areas a bit later on. But first, let's turn to our product and services categories.

For iPhone, this quarter saw very strong double-digit growth in each geographic segment, and we continue to be heartened by our customers' response to the iPhone 12 lineup. We're only in the early innings of 5G, but already its incredible performance and speed have made a significant impact on how people can get the most out of our technology.

Customers love iPhone 12 for its superfast 5G speeds, A14 bionic chip and Adobe vision camera never seen before in a phone. Users continue to rely on iPad and Mac to work, learn, create and connect. iPad had its highest June quarter

in nearly a decade, while Mac set an all-time June quarter record. We've seen a great response to the new iMac and iPad Pro, both powered by the M1 chip's exceptional speed and power efficient performance. The iMac's remarkable thin design and vibrant colors have made it a favorite for users everywhere. And the iPad continues to be an incredibly versatile tool in our users' toolbox, inspiring creativity and connection and keeping us entertained and productive in equal measure.

It was another very strong quarter for Wearables, Home and Accessories, which set a new June quarter record while helping people find more ways to stay entertained, healthy and connected at home and on the go. Apple Watch remains a go-to choice for users to stay on top of their health and reach their fitness goals. And our newest accessory AirTag began shipping to an enthusiastic response from customers, making the Find My network more useful than ever, while protecting user privacy.

Turning to Services, which set a new all-time revenue record as we continue to roll out innovative new features and programming. We're proud to be the recipients of 35 Emmy nominations this year, which speaks to the quality of our programming and an enthusiastic reception from customers and critics alike. Apple TV+ users are loving series like Mythic Quest and anticipating groundbreaking films like CODA, which premieres next month. And of course, Ted Lasso kicked off season 2 just last week and continues to win over viewers with its heartwarming message about the power of community, compassion and hope.

We also introduced Apple Podcasts subscriptions, a global marketplace for users to discover exclusive content and support their favorite creators. And we launched spatial audio for Apple Music, a cinematic listening experience that promises to change how music fans listen and musicians create even more immersive, layered and beautiful songs.

Last month, we shared many exciting new features at WWDC, but more powerful than any of them was the incredible showing of developers from all walks of life and around the world. The new tools we announced will help developers harness cutting-edge technologies like augmented reality, reach new users and customize their experience on the App Store, are learned to update or invent an app with Swift, Apple's powerful and intuitive programming language. Today's investments in education and coding translate to tomorrow's small businesses and groundbreaking new apps, the next app -- the next act of an app economy already creating jobs and opportunity around the world.

In June, a new study by the Analysis Group found that it was another record year for App Store developers whose combined billings and sales increased by 24% to \$643 billion in 2020. The app economy continues to be an incredible engine of prosperity and opportunity fueled by the ceaseless striving of developers to make apps that enrich people's lives.

Much like the developer community, we are diehard optimist about technology's potential to help people live happier, healthier and more fulfilled lives, goals that shine through with powerful new updates coming to iOS, iPadOS, macOS and watchOS this fall. That begins with innovative new features that help users stay connected with one another, like SharePlay and spatial audio for FaceTime or disconnect when they need a break, like Focus, which limits distracting notifications when you're winding down for bed or concentrating at work. And new productivity features make iPad an even more useful tool for multitasking, helping users navigate across apps, split their screen or use Quick Note to capture a thought the moment inspiration strikes.

In the health space, our new health sharing feature will make it easier than ever to securely share your health data with loved ones. That includes new capabilities like walking steadiness, which uses sensors to assess user stability doing everyday task and recommends exercises to improve stability and avoid a fall.

In the belief that privacy is a fundamental human right, we shared new features in iOS 15 that continue to drive our progress forward from mail privacy protection, which stops invisible pixels and an e-mail from tracking your mail activity, to app privacy report, which helps users check on the apps they've granted permission to use their personal data.

We also introduced some incredible next-generation technologies coming to the accessibility space, from assistive touch, which helps people with limb differences navigate Apple Watch to new voiceover capabilities to help blind and low-vision users. Accessibility remains a bedrock principle for us in the simple belief that the best technology for the world should be the best technology for everyone. But the responsibility to be a force for good in the lives of others extends beyond the technology we make, so to the teachers and students shaping our future.

This quarter, as part of our Racial Equity and Justice Initiative, we awarded innovation grants to engineering schools at 4 historically black colleges and universities to expand their coursework, scholarships and internship opportunities in

hardware engineering and silicon chip design. We see education as a great equalizing force, and we're more dedicated than ever to supporting the educators, advocates and students lighting the path and leading the way. That includes the 350 Swift Student Challenge winners we recognized at this year's WWDC.

If you ever need a dose of hope or inspiration, I can't say enough about our student scholarship winners whose apt bring so much good into the world, from teaching other young people to code to helping volunteers deliver groceries to people at high risk of COVID-19. Young people's innovations remind us that our collective future is bound up in the next generation's passion for solving global challenges and of the responsibility we have to join them in building a better world.

Turning to our own backyard, we're continuing to press forward in our efforts to help bring more affordable housing to the Bay Area and across California. This month, we shared that we've contributed more than \$1 billion to help first-time homeowners and construct thousands of new affordable housing units across the state. And we're continuing to stay focused on supporting the global response to the pandemic and delivering the best products and services for people.

Our greatest source of inspiration isn't technology itself but how people use it in their own lives in ways great and small: to write a novel or to read one; to care for an ailing patient or see a doctor virtually; to track their heart rate on a jog or to train for the Olympics. Every day, I'm grateful for the dedication of our teams to the simple mission of creating technology that improves people's lives. And I want to thank everyone at Apple for the purpose and passion they bring to that mission.

With that, I'll hand it over to Luca for a deeper dive on our performance this quarter.

Luca Maestri
CFO & Senior VP

Thank you, Tim. Good afternoon, everyone. We are very pleased to report record June quarter financial results, which reflect the importance of our products and services in our customers' lives and our strong underlying operating performance. Our revenue reached a June quarter record of \$81.4 billion, an increase of nearly \$22 billion or 36% from a year ago. We grew double digits in each of our product categories with an all-time record for Services and June quarter records for iPhone, Mac and Wearables, Home and Accessories. We also set new June quarter records in every geographic segment with very strong double-digit growth in each one of them.

Products revenue was a June quarter record of \$63.9 billion, up 37% over a year ago. This level of sales performance, combined with the unmatched loyalty of our customers, drove our installed base of active devices to a new all-time record. Our Services set an all-time revenue record of \$17.5 billion, up 33% over a year ago with June quarter records in each geographic segment.

Company gross margin was 43.3%, up 80 basis points from last quarter, driven by cost savings and a higher mix of services, partially offset by seasonal loss of leverage. Products gross margin was 36%, down 10 basis points sequentially, as seasonal loss of leverage was almost entirely offset by cost savings. Services gross margin was 69.8%, down 30 basis points sequentially, mainly due to a different mix.

Net income of \$21.7 billion, diluted earnings per share of \$1.30 and operating cash flow of \$21.1 billion were all June quarter records by a wide margin. Let me get into more detail for each of our revenue categories.

iPhone revenue set a June quarter record of \$39.6 billion, growing 50% year-over-year and exceeding our own expectations as the iPhone 12 family continue to be in very high demand. Performance was consistently strong across the world, and we grew very strong double digits in each geographic segment, setting June quarter records in most markets we track. Our active installed base of iPhones reached a new all-time high thanks to the exceptional loyalty of our customer base and the strength of our ecosystem. In the U.S., the latest survey of consumers from 451 Research indicates iPhone customer satisfaction of 97% for the iPhone 12 family.

Turning to Services. As I mentioned, we reached an all-time revenue record of \$17.5 billion with all-time records for cloud services, music, video, advertising and payment services and June quarter records for the App Store and AppleCare. Our newer service offerings, Apple TV+, Apple Arcade, Apple News+, Apple Card, Apple Fitness+ as well as the Apple One bundle, continue to scale across users, content and features and are contributing to overall services growth.

The key drivers for our Services business all continue to move in the right direction. First, our installed base of devices reached an all-time high across each geographic segment. Second, the number of both transacting and paid accounts on our digital content stores reached a new all-time high during the June quarter in each geographic segment, and paid

accounts increased double digits. Third, paid subscriptions continue to show strong growth. We now have more than 700 million paid subscriptions across the services on our platform, which is up more than 150 million from last year and nearly 4x the number of paid subscriptions we had only 4 years ago.

And finally, we're adding new services that we think our customers will love while also continuing to improve the breadth and quality of our current services offerings. For example, during WWDC in June, we previewed our new iCloud+ and Apple Wallet features, which we believe will create a more secure and differentiated customer experience.

Wearables, Home and Accessories grew 36% year-over-year to \$8.8 billion, setting new June quarter revenue records in every geographic segment. We continue to improve and expand our product offerings in this category. This quarter, we began shipping our new Apple TV 4K with a redesigned Siri Remote and our brand-new AirTags, and the customer response to both products has been very strong.

In addition to its outstanding sales performance globally, Apple Watch continues to extend its reach, with nearly 75% of the customers purchasing Apple Watch during the quarter being new to the product. For Mac, despite supply constraints, we set a June quarter record of \$8.2 billion, up 16% over last year, with June quarter revenue records in most markets we track around the world. It is remarkable that the last 4 quarters for Mac have been its best 4 quarters ever. This exceptional level of sales success has been driven by the very enthusiastic customer response to our new Macs powered by the M1 chip, which we most recently brought to our newly redesigned iMac.

iPad performance was also strong with revenue of \$7.4 billion, up 12% in spite of significant supply constraints. During the quarter, we also starting shipping our new iPad Pro powered by the M1 chip, and customer response has been outstanding. Both iPad and Mac have taken computing to the next level, and when you combine their performance over the last 12 months, they are now the size of a Fortune 50 business thanks to the best product lineups we've ever had, very high levels of customer satisfaction and a loyal growing installed base. In fact, around half of the customers purchasing Mac and iPad during the quarter were new to that product, and in most recent surveys of U.S. consumers from 451 Research, customer satisfaction was 92% for Mac and 95% for iPad.

In Enterprise, our customers are excited about the superior performance, battery life and security that the new M1 Macs bring. MassMutual, for example, is offering M1 MacBook Pro to all of its employees and equipping all conference rooms with M1 Mac Minis in preparation for return to work. And with its incredible performance and affordable entry price, the MacBook Air with M1 is gaining rapid adoption among many leading enterprise organizations.

Italgas, Italy's largest natural gas company, which will soon be using its extensive network to distribute renewable gases, is replacing every employee's Windows laptop with the new MacBook Air powered by Apple's M1 chip to bring the latest technology to its workforce. And Grab, Southeast Asia's leading super app that provides transportation, food delivery and digital payment services, is adding M1 MacBook Air to its company-wide M1 Mac deployment.

Let me now turn to our cash position. We ended the quarter with \$194 billion in cash plus marketable securities. We retired \$3 billion of term debt and increased commercial paper by \$3 billion, leaving us with total debt of \$122 billion. As a result, net cash was \$72 billion at the end of the quarter.

As our business continued to perform at a very high level, we are also able to return \$29 billion to shareholders during the June quarter. This included \$3.8 billion in dividends and equivalents and \$17.5 billion through open market repurchases of 136 million Apple shares. We also began a \$5 billion accelerated share repurchase program in May, resulting in the initial delivery and retirement of 32 million shares.

As we move ahead into the September quarter, I'd like to review our outlook, which includes the types of forward-looking information that Tejas referred to at the beginning of the call. Given the continued uncertainty around the world in the near term, we are not providing revenue guidance, but we are sharing some directional insights assuming that the COVID-related impacts to our business do not worsen from what we are projecting today for the current quarter.

We expect very strong double-digit year-over-year revenue growth during the September quarter. We expect revenue growth to be lower than our June quarter year-over-year growth of 36% for 3 reasons. First, we expect the foreign exchange impact on our year-over-year growth rate to be 3 points less favorable than it was during the June quarter. Second, we expect our services growth rate to return to a more typical level. The growth rate during the June quarter benefited from a favorable compare as certain services were significantly impacted by the COVID lockdowns a year ago. And third, we expect supply constraints during the September quarter to be greater than what we experienced during the June quarter. The constraints will primarily impact iPhone and iPad.

We expect gross margin to be between 41.5% and 42.5%. We expect OpEx to be between \$11.3 billion and \$11.5 billion. We expect OI&E to be around 0, excluding any potential impact from the mark-to-market of minority investments and our tax rate to be around 16%. Finally, today, our Board of Directors has declared a cash dividend of \$0.22 per share of common stock payable on August 12, 2021, to shareholders of record as of August 9, 2021.

With that, let's open the call to questions.

Tejas Gala

Investor Relations Contact

Thank you, Luca. [Operator Instructions] Operator, may we have the first question, please?

Question and Answer

Operator

Our first question comes from Katy Huberty from Morgan Stanley.

Hearing no response, we'll take our next question from Chris Caso with Raymond James.

Christopher Caso

Raymond James & Associates, Inc., Research Division

Yes. Just to dig into the commentary on guidance a little bit. Just starting with the fact that last year, obviously, there was a later launch of iPhone than we've typically seen in other years. Could you talk us through that and perhaps some of the other products, what may be different as compared to last year?

Luca Maestri

CFO & Senior VP

Well, as I explained, there are -- first of all, we are expecting to grow very strong double digits. That's, I think, Chris, the starting point here. We expect this very strong level of growth that we've experienced during the course of the year to continue into the September quarter.

We said that the growth rate is going to be below 36%, and I've listed 3 factors. The first factor is that the dollar continues to be favorable on a year-over-year basis in the sense that it's weakened against most currencies on a year-over-year basis, but that benefit is going to be about 3 points less in the September quarter than what we've experienced during the June quarter because the dollar strengthened against most currencies in recent weeks.

Second, I mentioned that the services growth rate that we've experienced in the June quarter, 33%, that's significantly higher than what we've had in recent history. And that was due to the fact that there were a couple of services categories, namely our advertising business and AppleCare that were significantly impacted a year ago because of the COVID lockdowns and therefore, they had a relatively easy compare in the June quarter. And so we don't expect that to continue into the September quarter. And so we expect still significant growth in Services, but not to the level that we've seen in June.

And then I mentioned that the supply constraints that we've seen in the June quarter will be higher during the September quarter. Back in -- when we talked here 3 months ago, we said that we were expecting supply constraints for the June quarter between \$3 billion and \$4 billion to affect primarily iPad and Mac. We were able to mitigate some of those constraints during the June quarter.

And so we came in at a number that was slightly below the low end of that range that we had quoted at the beginning of the quarter, but we expect that number to be higher for the September quarter.

And so when you put all that together, again, very strong double-digit growth for September, with these caveats that I just mentioned.

Christopher Caso

Raymond James & Associates, Inc., Research Division

If I could follow up with regard to the supply constraints, and do you expect those supply constraints to persist through the December quarter as well what effect will that have on the holiday selling season? And then in conjunction with that, what additional costs are you absorbing because of these supply constraints? Is that having an effect on gross margins or just product cost in general as you perhaps pay a little more to get more supply?

Timothy D. Cook

CEO & Director

Chris, it's Tim. In terms of the cost, we're paying more for freight than I would like to pay, but component costs continue in the aggregate to decline. In terms of supply constraints and how long they will last, I don't want to predict that today. We're going to take it sort of one quarter at a time. And as you would guess, we'll do everything we can to mitigate whatever set of circumstances we're dealt.

Luca Maestri
CFO & Senior VP

And Chris, on the cost side, as I mentioned during my comments, our results for gross margins for the June quarter, 43.3%, we really saw some really nice cost savings during the quarter. And I think you've seen that we provided guidance of 41.5% to 42.5% for September, which is obviously a level that we are very pleased with.

Operator

We'll take our next question from Jim Suva with Citigroup Investment Research.

James Dickey Suva
Citigroup Inc., Research Division

Congratulations to you and your global team for great operations during a challenging time. Tim and Luca, I just have one question and either of you or both of you could figure out who's best to answer it. But we look at a world of pretty unprecedented, whether it be COVID, the Delta variant, China flood, supply chain components, just wondering for your like R&D and innovation, is it being materially impacted by that such where a normal cadence is unfair? Or is it kind of happening during a slow time of year where you're able to empower people to work remotely and still have the typical innovations and product launches that you've had historically in the past?

Timothy D. Cook
CEO & Director

Jim, the company has been incredibly resilient. The employees are really doing double duty. And I could not be more pleased with the cadence that we're coming out with new things. As you can see from the software announcements that we made in -- at WWDC and the corresponding launches of the software that we plan on in the fall and then all of the products that we've been able to bring out over the last 12 to 18 months, it's amazing. And so I'm very pleased with it.

Operator

We'll take our next question from Shannon Cross with Cross Research.

Shannon Siemsen Cross
Cross Research LLC

Tim, I'm curious, what have you learned from this iPhone cycle regarding customer preferences and pricing and maybe subscriptions in that? And if there is a difference, if you could talk about it on a geographic basis.

Timothy D. Cook
CEO & Director

We've -- if you look at our results in Q3, Shannon, we had strong double-digit growth for switchers and for upgraders. And in fact, it was our largest upgrade quarter for a Q3 ever. And so we feel really, really great about both categories.

And as Luca kind of said during the preamble or opening comments, we -- our results are really strong for iPhone around the world. And so it's been a very, very strong cycle. And yet we're -- the penetration on 5G is obviously still very, very low. And so we feel really good about the future of the iPhone.

Shannon Siemsen Cross
Cross Research LLC

Okay. And maybe if you can talk a bit about China, up 58%, where are you seeing the growth? What are you hearing from customers there? How is this -- actually, 58% is not sustainable, but how sustainable is the strength?

Timothy D. Cook
CEO & Director

It was an incredibly strong quarter. It set a June quarter revenue record for Greater China for us, and so we're very proud of that and doing the best job we can to serve customers there. We had a particularly strong response to the 12 Pro and the 12 Pro Max. Those results were particularly strong.

And if -- but if you look at the balance of our products, we also set June quarter records for Wearables, Home and Accessories for Mac and for Services. So it was sort of an across-the-board strength. And we're seeing plenty of new customers come to the market. For example, Mac and iPad, about 2/3 of the customers who bought in the last quarter were new to that product. For the Apple Watch, that number was 85%. And so we could not be happier with the results.

Shannon Siemsen Cross

Cross Research LLC

Was the 85% China or overall?

Timothy D. Cook

CEO & Director

85% was China. Yes, I was talking about -- specifically, the numbers I referenced were specifically for China.

Luca Maestri

CFO & Senior VP

And then Shannon, it's -- for the world, the Watch is 75%.

Operator

We'll take our next question from Amit Daryanani with Evercore.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division

I have 2 as well. I guess, first off, Luca, I was hoping you could maybe talk a little bit more about the gross margins and maybe the expectations you laid out for September. I think sequentially, it implies it's down 100 basis points or so. So maybe just touch on what are the puts and takes there would be helpful because I think historically, September tends to be a flattish, maybe even up a little bit gross margin number for you folks.

Luca Maestri

CFO & Senior VP

Yes. I think it's important to go back to the Q3 results, right? It's 43.3%. And one of the things that I mentioned is that in addition to getting really good cost savings on a sequential basis, we also had a very high mix of services as part of the total, and particularly, with advertising doing really, really well because of the rebound that we saw from the COVID lockdowns a year ago.

And so as we move forward sequentially, we do expect a different mix, and so that drives the guidance that we provided, which, again, as you know, it's significantly higher than just a year ago. For example, a year ago, we were at 38.2%, so almost 400 basis points of expansion on a year-over-year basis, right? And so I think it's important to take that into account, just a different mix.

Amit Jawaharlaz Daryanani

Evercore ISI Institutional Equities, Research Division

Got it. No, absolutely. I don't think anyone expected gross margins to be north of 40% just quickly for you, folks. So that is impressive.

If I could follow up on Services, and I know you called out the 33% growth this quarter as a bit of an aberration. The compares were easier. But as you look at your services growth rate over the last 4 quarters, let's just say, what do you think is enabling this growth? Is it you're able to have a higher ARPU more monetization of your installed base? Or is your installed base growing? I'm curious, which one is bigger? And then over time, how do you think those 2 components stack up for you?

Luca Maestri

CFO & Senior VP

It's a combination of multiple factors, right? Obviously, the fact that our installed base continues to grow and it sets new all-time highs all the time obviously gives us a larger opportunity all the time. And second, we have more and more people

that are engaged in our ecosystem, both transacting for free, which is a very large number, and people that are willing to pay for some of the services, and that percentage of people that are paying for our services continues to grow nicely. I mentioned it grew double digits again this quarter. So that obviously helps on the revenue side.

And of course, we continue to increase both the quality and the quantity of the services. As you know, during the last few years, we've launched a lot of new services from Apple TV+ to Fitness+, Apple Arcade, News+ and so -- and of course, the Apple Card. And so these are businesses that we are scaling right now. And so all that additional revenue helps, and I think it flows through our growth rates. As you said, during the last 4 quarters, we are well into the mid-20s, right? So I think it's obviously very nice for us to see.

Operator

We'll hear next from Katy Huberty with Morgan Stanley.

Kathryn Lynn Huberty
Morgan Stanley, Research Division

Can you hear me okay?

Tejas Gala
Investor Relations Contact

Yes, we can.

Kathryn Lynn Huberty
Morgan Stanley, Research Division

Okay. Good. So first question, there's a debate in the market around how much Apple benefited from the pandemic, given increased spend in areas like Mac and App Store. But of course, you've mentioned over the past several quarters that there are other areas that were limited by the pandemic and store closures and less foot traffic. When you net out all the puts and takes, was your business helped? Or was it hindered by the pandemic?

Luca Maestri
CFO & Senior VP

Well, of course, Katy, we don't have the crystal ball that tells us exactly what these different variables, how they impacted our business. We do know that on -- I would say, on the positive side of the ledger, obviously, especially during the periods of extreme lockdowns, digital services did very well because entertainment options were limited. And so obviously, our digital services did really, really well.

Obviously, with more people working from home, more people studying from home, we know that iPad and Mac demand was very, very strong.

On the other side, we had certain services like advertising because of the reduced economic activity, AppleCare because our stores were closed, that were affected negatively, and certain products like the iPhone or the Watch. So there are maybe more complex types of sales because of the complexity of the transaction. They were also affected because so many points of sale were closed all around the world, not only our stores but also our partner stores, right? So we had that dynamic during -- throughout COVID.

And now some of these businesses are rebounding. I mentioned advertising and AppleCare. iPad and Mac, it's difficult for us to gauge because we've been constrained for quite a long period of time. And the reality is that maybe the new normal after we exit COVID may be different from the past.

For example, maybe there's going to be hybrid models around work, for example. And so it's difficult to tell you on a net basis what that is, clearly -- and this is very fluid because it tends to change over time. I can certainly tell you that we're all looking forward to a COVID-free world. I think that would be very good for us and for the entire -- I mean for our customers as well.

Kathryn Lynn Huberty
Morgan Stanley, Research Division

And just a follow-up on iPhone specifically. If you look historically after a really strong product cycle, which you've experienced this year with iPhone 12, iPhone revenues come under pressure because the upgrade rate slows, the mix often shifts to the lower end of the portfolio. Is it fair to assume a similar trend will play out over the next year? Or if not, what do you think is different this time?

Timothy D. Cook
CEO & Director

Katy, it's Tim. We're not predicting the next cycle, but I would point out a few things. One is we have a very large and growing installed base. As you know, the iPhones passed 1 billion active devices earlier this year. Two, we have loyal and satisfied customers. The customer set that we're seeing on the new iPhones are -- is just amazing. It's jaw-dropping.

And the geographic response is pervasive across the world. And in the U.S., we had the top 3 selling models. In the U.K., we have 4 out of the top 5. In Australia, we have the top 2. In Japan, we have the top 3. In Urban China, we have the top 2. And so the response from customers all around have been great. Obviously, the product itself is amazing. The 12 lineup was a huge leap that introduced 5G and had A14 Bionic and a number of other fantastic features that customers love.

The next thing I think to consider is that we're in the very early innings of 5G. If you look at 5G penetration around the world, there's only a couple of countries that are in the double-digits yet. And so that's an amazing thing 9 months or so into this. And the last thing is we're going to continue to deliver great products. We're going to continue to do what we do best is integrate hardware, software and services together into an amazing experience. And so those are the things that I would consider if I were coming up with forecast.

Operator

We'll take our next question from Harsh Kumar with Piper Sandler.

Harsh V. Kumar
Piper Sandler & Co., Research Division

Yes. First of all, congratulations. Fantastic execution. It's resulted in consistency for your results. Tim, this is actually perfect timing for this question. You talked about your installed base of 1-billion-odd units. I was curious if you could help us understand how old that installed base is. And the reason that I'm asking this question is we're clearly seeing people upgrade to 5G phones. And if that's the case and that continues, that could be a larger force than most other forces for your revenues to continue to grow as people migrate to the 5G family of phones. So I was curious if you could shed light on how the upgrades are happening and then also how old that base is.

Timothy D. Cook
CEO & Director

Yes. What I would tell you is it's -- first of all, it's difficult to answer your question precisely. But what I would tell you is on both switchers and upgraders, we did extremely well in Q3. Both were up strong double digits. And the geographic representation of iPhone year-over-year comps were -- looks extremely well. And so we're really pleased with it.

I would remind you that the 1 billion number that I quoted also was iPhone, where we quoted a number earlier in the year in the January call, I believe, of 1.65 billion devices is the total active devices just for clarification. And so the net is very strong switchers, very strong upgraders, best upgrade quarter for June -- for the June quarter that we've seen. And we feel really great about the momentum. But at the same time, we recognize that the 5G penetration is quite low around the world and very, very low. We're at the front end of this.

Harsh V. Kumar
Piper Sandler & Co., Research Division

Fair enough. For my follow-up, Apple is probably one of the largest semiconductor companies in the world. How do you -- how does Apple determine what's strategic and something that Apple wants to make itself versus nonstrategic? And also, I was curious, there's a lot of -- well, it's public news now that Arm is getting acquired by NVIDIA, and I was curious how Apple views that. Is that something that's beneficial to Apple or not meaningful or negative?

Timothy D. Cook
CEO & Director

Well, I think that, that acquisition has lots of questions that people are asking, and I'll sort of leave that to -- up to everyone else. And in terms of us and how we decide to make silicon, we ask ourselves if we can do something better, if we can deliver a better product, if we can buy something in the market and it's great and it's as good as what we could do, we're going to buy it. We'll only enter where we believe we have an ability to do something better and therefore, make a better product for the user.

And so the M1 is a great example of that. We have the ability within our silicon team to deliver a product that we feel is appreciably better than we could buy. And so we've taken our great hardware and software expertise and combine those and have brought the M1 out. And the response to the M1 has been unbelievable. It's powering Mac sales that are constrained. It's powering now iPad, which also has constraints on it. And so that's how we look at whether we should enter a market or not.

Operator

We will take our next question from Krish Sankar with Cowen and Company.

Krish Sankar

Cowen and Company, LLC, Research Division

Yes. And congrats on the strong results. First one for Luca, you mentioned Services growth should normalize in the September quarter. And I understand the last few quarters, Services business was strong, driven by work-from-home, et cetera. So what is the normalized growth rate for the Services business as folks return back to the office in this post-COVID world? And then I have a follow-up.

Luca Maestri

CFO & Senior VP

Well, I think you can go back several quarters and try to do a bit of an average, and that's what we were talking about. Of course, there's always a bit of variability around results, right? But certainly, we haven't done 33% in years. And so that was a bit of an anomaly. And again, I explained it's around a couple of the businesses that had a relatively easy compare during the June quarter. So our services growth has been for many, many quarters in strong double digits, and we feel confident around that level.

Krish Sankar

Cowen and Company, LLC, Research Division

Got it. Got it. And then just a follow-up for Tim or Luca. I think, Tim, you mentioned in your prepared comments that in September quarter, there's going to be greater impact on supply constraints on the iPhone and iPad. So I'm kind of curious, this is the first time I heard you talk about component shortages impacting the iPhone. Can you be more specific? Is it display drivers? Or what exactly is the choke point on the supply?

Timothy D. Cook

CEO & Director

The majority of constraints we're seeing are of the variety that I think others are seeing that are -- I would classify as industry shortage. We do have some shortages. In addition to that, where the demand has been so great and so beyond our own expectation that it's difficult to get the entire set of parts within the lead times that we try to get those. And so it's a little bit of that as well. The -- as I said before, I think probably maybe with the basis of your question, the sort of the latest nodes, which we use in several of our products have not been as much of an issue. The legacy nodes are where the supply constraints have been on silicon.

Operator

We'll hear our next question from David Vogt with UBS.

David Vogt

UBS Investment Bank, Research Division

So maybe just a point of clarification. So based on the data and the comments about upgraders and switchers being strong as well as emerging markets were relatively strong in the quarter, what does that specific set of data point strength mean for the iPhone portfolio? And I guess my question around that is, when you think about switchers and price points, I

think last year you launched the SE too to really address maybe some of the lower price point markets like the emerging markets. So does that mean, thinking about the portfolio going forward, there is less of a need for a lower price product going forward? And that the current portfolio and the new cycle going forward would be more high end in nature as we currently have today? And then I have a follow-up.

Timothy D. Cook
CEO & Director

Yes, David, we did --we had an incredible quarter for the emerging markets. In Q3, we set June quarter records in Mexico and Brazil and Chile, in Turkey and UAE, in Poland and Czech Republic, India, obviously, in China, as I talked about before, Thailand, Malaysia, Vietnam, Cambodia, Indonesia. I could go on and name a few more. It's a very long list. And so we're -- those results are for the entire line of products that we have.

And keep in mind, we still do have SE in the line. We launched it a year ago, but it's still in the line today, and it's sort of our entry price point. And so I'm pleased with how all of them are doing. And I think we need sort of that range of price points to accommodate the types of people that we want to accommodate. And so we've put something for the entry buyer who really wants to get into an iPhone and then something for the pro buyer who wants the very best iPhone that they can buy. And I think that's true in the emerging markets as good as it's true in the United States or other developed markets.

David Vogt
UBS Investment Bank, Research Division

No. No, that's helpful. I appreciate that, Tim. So does that mean sort of the emerging market buyer that wants to get into the iPhone is looking for a device that has 5G capability as well? Obviously, we're early innings in a lot of markets. Or how do we think about that over the intermediate to longer term in terms of the consumer preference for 5G in those markets if available from an infrastructure perspective?

Timothy D. Cook
CEO & Director

In most of the markets I read, it is really, really, really early on 5G. Really early. And so -- but I think the top end buyer is buying for the future as well because they may hold their phone for 2 years or longer in some cases. And so 5G becomes an important part of their buying decision.

Operator

We'll take our next question from Ben Bollin with Cleveland Research Company.

Benjamin James Bollin
Cleveland Research Company

I wanted to start, Luca or Tim, could you walk us through a little bit about how you think Apple One bundles are influencing the trajectory of services and the economics? And then a second part on Services, I'm curious how you think IDFA is developing and influencing the trajectory of the advertising business within Services.

Timothy D. Cook
CEO & Director

In terms of Apple One, as you know, we're offering Apple One because it makes enjoying our subscription services easier than ever before, including Apple Music and Apple TV+ and Apple Arcade and iCloud and more. And so we really put the customer at the center of that and have recently began to remind people about Apple One in a way that we probably waited a few months before doing that. And so I'm very pleased with what we're seeing on Apple One right now, and think it's a great ramp for the future of services. And more importantly, it's a great customer benefit because many of our customers like to try out more than one of these services, and it allows them to do that with one easy bundle and subscription service.

In terms of IDFA or the advertising in general, I take it your question is about ATT. With ATT, we've been getting quite a bit of customer reaction, positive reaction to being able to make the decision on a transparent basis about whether to be tracked or not. And it seems to be going very well from a user point of view.

Operator

We'll take our next question from Wamsi Mohan with Bank of America.

Wamsi Mohan

BofA Securities, Research Division

Yes. I have 2 as well. To begin with, Luca, you noted significant product revenue deleverage, but yet your product gross margins were roughly flat. You noted cost savings. Can you maybe talk about whether these are tactical in nature or more structural like vertical integration that will continue to drive benefits to product gross margins?

And on Services side, you noted several times about the strength in ad growth, which is obviously very high-margin contributor, but the sequential trajectory on Services margins was flat. So what were some of the offsets there? And then I have a follow-up for Tim.

Luca Maestri

CFO & Senior VP

Yes. On the product side, I talked about cost savings. Tim mentioned that maybe on the freight side, we're seeing some level of cost pressure that is a bit out of the norm at this point in the cycle. For everything else for all the major commodities and components, we continue to see a very typical cycle where we are getting good cost savings on a sequential basis. And so far, it's been very good, as you can tell from the absolute level of gross margins because on the product side, we are up more than 600 basis points on a year-over-year basis. So it feels something that we've been able to accomplish and we're able to maintain, at least in the near term. Nothing that was abnormal during the quarter or a one-off in nature. It was pretty structural.

On the Services side, again, up a lot on a year-over-year basis. So the baseline has gone up a lot. The sequential decline, as you said, it was very, very small. And as I mentioned several times in the past, we have a very large services portfolio with very different margin profiles in our services. And so even a slight change in mix can drive some sequential differences, and this was the case this quarter, just a different mix. I mentioned, for example, that AppleCare has rebounded.

And so those -- the relative success of our Services in the marketplace can drive some slight changes in gross margins. Again, step back for a second, 69.8% gross margin. We're very, very, very happy with where we are with the Services margin trajectory.

Wamsi Mohan

BofA Securities, Research Division

Okay. And Tim, there is increasing regulatory focus in China, in particular, on some of the Chinese companies. It's not a direct impact of Apple, but how should investors handicap the indirect impact given some of these companies are pretty large contributors to Apple's App Store revenues?

And also, is there -- are you seeing any impact at all from these? And is the limiting of the usage of some of these apps influencing how people are either interacting with your devices? Or is there any other ancillary impact that you're seeing?

Timothy D. Cook

CEO & Director

Well, for the quarter, as you can see, we grew 58%. So it was a strong quarter, and embedded in that was a quarterly record for Services, which includes the App Store. And so we're seeing strength in China. The economy has really bounced back there fairly quickly from COVID.

In terms of the regulatory focus, what we are focusing on from our angle is to serve users there and to make sure that they're very satisfied with the products and the services that we're showing. And we all -- we work with a lot of different companies to ensure that. And so that's our focus.

Tejas Gala

Investor Relations Contact

Thank you, Wamsi. A replay of today's call will be available for 2 weeks on Apple podcast, as a webcast on apple.com/investor and via telephone. The numbers for the telephone replay are (888) 203-1112 or (719) 457-0820. Please enter confirmation code 9766068. These replays will be available by approximately 5 p.m. Pacific Time today.

Members of the press with additional questions can contact Josh Rosenstock at (408) 862-1142. Financial analysts can contact me with additional questions at (669) 227-2402.

Thank you again for joining us.

Operator

Thank you. That does conclude today's conference. Thank you for your participation.

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TheStreet

Spotify's New Funding Round Values Music Streamer at \$8.5 Billion

■ Music streaming service Spotify has reportedly closed a \$526 million round of funding, valuing the company at about \$8.5 billion, according to the Wall Street Journal.

Brittany Umar Jun 10, 2015 3:50 PM EDT



NEW YORK (TheStreet) -- Music streaming service **Spotify** has reportedly closed a \$526 million round of funding, valuing the company at about \$8.5 billion, according to *The Wall Street Journal*. Part of the funding comes from Swedish telecom operator **TeliaSonera**, which announced it's investing \$115 million in Spotify for a 1.4% stake in the company.

TeliaSonera said in a release that both companies are committing resources, staff and other assets to a joint venture that will work to innovate in areas including media distribution, customer insights, data analytics and advertising.

"We've set-out to create a New Generation Telco where innovation is key to our success," said Johan Denzel, president and CEO of TeliaSonera in a statement. "Spotify is a great company, loved by customers and with a world class take on innovation. I'm excited to join Spotify's journey as investor and key partner."

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks with serious upside potential in the next 12-months. [Learn more.](#)

According to TeliaSonera, its investment follows more than five years of partnership with Spotify. Daniel Ek, chief executive officer and founder of Spotify said, "We have a long and great relationship with TeliaSonera and I'm pleased we're able to take this to the next level together with this strategic partnership." On its Web site, Spotify claims more than 75 million active users, up from 40 million last year, and over 20 million paying subscribers.

The news comes on the heels of Apple's (**AAPL**) announcement this week that it will launch its own music streaming service on June 30. Apple Music will debut in over 100 countries for \$9.99 a month, with a three-month free trial. It will also offer a family plan for up to six people for \$14.99 a month. Apple Music for Apple TV and Google's (**GOOGL**) YouTube for Artists are expected to become available this fall. Apple says its music service will feature more than 30 million songs, about the same number Spotify says it has in its catalog.

READ MORE: Apple Sets Sights on Music With New Streaming Service

You see Jim Cramer on TV. Now, see where he invests his money. Check out his multi-million dollar portfolio and discover which stocks he is trading. [Learn more now.](#)

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Apple's Guidance Will Likely Decide How Shares React to Its Earnings Report

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Apple Grows Its Ecosystem, And Its Advantage

F forbes.com/sites/jonmarkman/2017/04/12/apple-grows-its-ecosystem-and-its-advantage/

Jon Markman

April 12, 2017

Editors' Pick|Apr 12, 2017,10:23am EDT|

Jon Markman

Contributor

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Investing

Analyzing tech stocks through the prism of cultural change.

This article is more than 4 years old.

Apple slipped off its high horse in 2015 and 2016, but has hopped back aboard and is now streaking at the front of the market.

This is not just about technicals or cheapness. The company has successfully rebuilt its business around grabbing your undivided attention. Do I have your attention?

Although the iPod and iTunes are emblematic of the transition to digitalization, for a long time investors feared Cupertino had lost its way. Alphabet, Amazon, Facebook and even Netflix all seemed to have better strategies in the new era of the cloud and streaming media.

Customers look at the newly arrived Apple's iPhone 7 at an electronic store in Buenos Aires,... [+] Argentina, on April 07, 2017. Apple's iPhone super-phones returned to stores in Argentina, after six years of absence, but with the most expensive prices in the world, according to market sources. / AFP PHOTO / EITAN ABRAMOVICH (Photo credit should read EITAN ABRAMOVICH/AFP/Getty Images)

Yet it turns out Apple had a plan, too: Its ecosystem. Now it is pressing that advantage in a big way – and it will lead to more iPhone, Watch, Macbook, accessory and subscription sales than ever. This is where the new cheaper iPad fits in.

In September 2016, a day ahead of the release of iPhone 7, Verge writer Thomas Ricker explained his devotion to Apple products even though they were no longer at the cutting edge of innovation:

“I’m from the halo generation, where my first iPod caused me to buy my first MacBook, which led to an iPhone and then an iMac and then more iPhones, iPads, and finally, an Apple TV. And all this Apple hardware begat dozens of compatible accessories including speaker docks, cradles, cables, and Kickstarter doodads, not to mention hundreds of apps and other content purchased in Apple’s stores,” wrote Ricker. “So maybe what I’m describing is akin to Stockholm syndrome. But I don’t think so, not yet, anyway. Nevertheless, I’m at the point where I judge the best device to be the device that works best in the ecosystem where I live.”

There are many more like Ricker. My daughter, for instance. She's a junior at Purdue University in Indiana, and not too long ago her Macbook Air died. She knew I prefer Windows laptops because you get more bang for your buck, but after a couple of weeks of indecision decided to go for a new Macbook Pro because it worked with all her other devices, and it's just still cooler than a Dell. I remember going through the same exercise a decade ago when she got her first iPod. The brand still has stunning relevance after all these years; too bad Sears never figured that out.

The aura of its brand and the lure of its ecosystem puts Apple in a powerful position. Captive customers mean robust sales regardless of the level of innovation. It also allows the company to tightly integrate products and services to put competitors at a distinct disadvantage.

For example, iPhone users can ask Siri to stream specific songs and playlists from Apple Music to any of their Apple devices. And AirPods, the dorky new Bluetooth headphones, get the same connectivity smarts. They work magically with everything in the Apple ecosystem as soon as you open their carrying case.

It's not really magic. It's by design. It's a trap to keep customers captive in the Apple ecosystem. And it's working.

"We're making AirPods as fast as we can," said Tim Cook, Apple chief executive at the most recent shareholder meeting, reported Business Insider . "We have a few comments from people who don't think we're making them fast enough, but we're definitely working on that."

In the workplace, Apple forged partnerships with IBM (IBM) and the German enterprise software giant SAP (SAP). They will build productivity software applications for iPhones. Since Apple's mobile devices are tightly integrated with its MacBook computers there should be built-in efficiencies not available to traditional PCs. And that should lead to more corporate iPhone, iPad, Mac and Watch sales.

Apple shares gapped up to a record high Tuesday. Its market cap is now tops in the world at \$741 billion, which is \$160 billion more than its next largest competitor, Alphabet (GOOGL). Yet its forward price/earnings multiple is just 13.9x, which is barely half the level of much slower growing companies like Altria (MO) and a third the level of Amazon.com (AMZN). Yes, the most valuable company in the world is cheap.

Most of the leading technology firms found a way to monetize data, time or a combination of the two. Apple found a way to ensure its customers do not even consider buying other products. With iPhone 8 coming in the fall, and likely to be its best product in years, it's still a buy on pullbacks.

Check out my website.



Jon Markman

I am an investment adviser, trader, columnist and author based in Seattle. I publish or edit four daily publications: Fast Forward Investing (also known as Strategic

...

I am an investment adviser, trader, columnist and author based in Seattle. I publish or edit four daily publications: Fast Forward Investing (also known as Strategic Advantage), on long-term investing; Trader's Advantage on swing-trading high-beta stocks and options; Gemini 252 on S&P 500 E-mini and Treasury bond futures timing; and Gemini SGX on gold, silver and Russell 2000 E-mini futures timing. I am a former MSN Money managing editor; Los Angeles Times financial columnist; winner of the Gerald Loeb Award for Distinguished Financial Journalism; and portfolio manager at a stat arb hedge fund. I am also the author of five books on investing, including an annotated edition of "Reminiscences of a Stock Operator." A graduate of Duke University and the Columbia University Graduate School of Journalism, my Twitter feed is @jdmarkman.

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May 15, 2020

AirPods: Accessory Or The Next Big Thing?

Imagine a startup with \$12 billion of revenue, 125%+ YoY revenue growth (two years in a row), and Apple-esque gross margins (30-50%). Without knowing anything else about the business, what would you value it at? \$50 billion? \$100 billion? More?

That's Apple's AirPods business, the fastest-growing segment of the world's most valuable company.

In 2016, when Apple released their first ever wireless earbuds called *AirPods*, many thought of them as an add-on product that could boost Apple's average iPhone sales price.

The idea was that instead of selling every new phone with earphones included, Apple could sell improved earphones as a second product, without changing the price of the phone. Smart move for an incremental revenue boost, but the magnitude of AirPods success has surpassed all expectations. Now it looks like AirPods could become much more than just an iPhone accessory.

iPhone Sales and Revenue

Since 2017, Apple has sold roughly 215 million iPhones per year. iPhone sales alone contribute roughly \$150 billion of revenue for Apple each

year. That's roughly 80% of Apple's total product revenue.

AirPods Sales and Revenue

And while investors have come to terms with the flat revenue for Apple's iPhone business, it's becoming apparent that Apple might have another big hit on their hands. AirPods sales have been beating expectations ever since Apple launched them in December of 2016.

Though Apple doesn't share sales numbers for AirPods, industry analysts have converged on estimated sales numbers for each of the last 3 years. In 2017, Apple sold an estimated *15 million devices*, each priced at roughly \$150. That gave Apple a \$2.25 billion revenue boost, only a 1.5% boost to Apple's \$150 billion iPhone revenue.

But in 2018, AirPods sales began to quiet Apple bears. *35 million pairs* were sold, still priced at roughly \$150. That gave Apple an additional \$5.25 billion in revenue, then representing 3.5% of iPhone revenue.

And in 2019, Apple has pulled off yet another incredible year of AirPods sales. Apple sold an estimated *60 million units*, but in 2019 the prices increased too. Apple's *second generation AirPods* launched at \$200, and their newest variation, the *AirPods Pro* sell for \$250.

Assuming an even split of sales between Gen 1, Gen 2, and AirPods Pro, Airpods revenue was \$12 billion in 2019. That's 8% of Apple's iPhone revenue. Investors are paying attention now.

AirPods Sales Growth And Potential

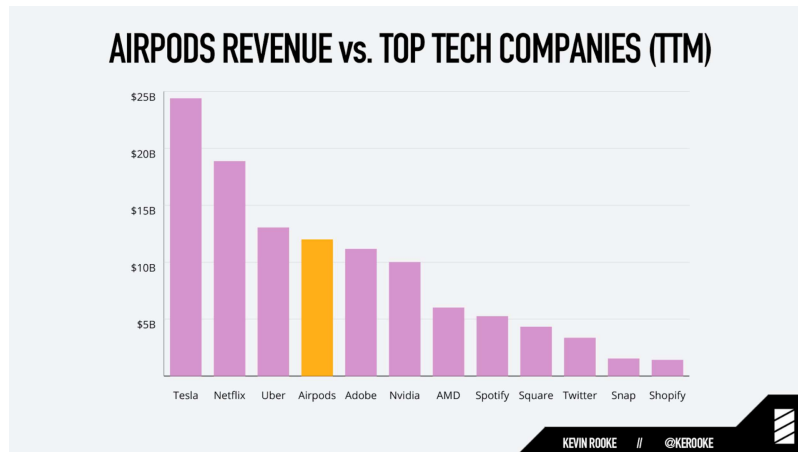
Because while 8% doesn't sound impressive, it's 8% of the world's most successful product,

which represents a majority of the revenue of the \$1.3T behemoth that is Apple. And with Apple valued at 5x revenues, a similar multiple would imply the AirPods business is worth \$60 billion.

Except AirPods sales are growing at triple digit rates each year. In 2018, AirPods revenue grew 133% over 2017, and in 2019 AirPods revenue was up another 128% over 2018.

This is what AirPods revenue looks like compared to some of the world's top tech companies. AirPods make as much money as Spotify, Twitter, Snap, and Shopify *combined*.

And considering their triple-digit growth two years in a row, I would be shocked if AirPods didn't earn more money than Uber in 2020.



And don't forget. AirPods only represent a portion of Apple's audio business. Apple also owns Beats By Dre, which is responsible for a healthy chunk of the world's over-ear headphones market.

AirPods Impact On Apple's Business

But as investors look forward to anticipate the future impact AirPods will have on Apple's business, there are a few things to consider.

First, unit sales of AirPods have significant room to grow from here. Using the estimates linked above, 100+ million AirPods have been sold since they launched, while Apple's installed base of iPhones is *900 million*. That means almost all iPhone users are still either using wired earphones, third-party earphones, or none at all. Lots of opportunity to capture new users.

Second, the growth of unit sales is likely already priced in to the stock. It doesn't take a genius to do the math above and figure out that AirPods sales will continue growing from here. The real question that investors should be asking is "what could AirPods become that the world hasn't realized yet?"

This is where new AirPods features become important. Rumors are swirling that Apple may launch an *operating system for AirPods* in 2020, and apps like *TTYL* and *Yac* are already creating buzz as audio-first applications.

If Apple can successfully build an ecosystem of applications around AirPods and audio experiences, Apple will have more freedom to raise prices without lowering demand.

Audio experiences could also be a tool for growing Apple's base of phone buyers. The differences between Apple's iPhone and all other smartphones is shrinking every year. But new audio experiences could change that and re-ignite growth in Apple's iPhone sales.

Bottom Line

It's the combination of higher prices and higher unit sales that the future success of AirPods depends on. New iPhone accessories alone won't move the needle for Apple in the long run, but the creation of an entire audio ecosystem just might. Keep an eye on AirPods feature improvements, and the possibility of an Apple audio operating system in 2020.

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MARKETS

AirPods were a \$6 billion business for Apple this year and will be even bigger next year, top analyst says

PUBLISHED FRI, DEC 20 2019 9:36 AM EST

**Jesse Pound**
@JESSERPOUNDSHARE    

KEY POINTS

Apple sold \$6 billion worth of AirPods this year and should sell more than double that next year, according to Toni Sacconaghi of Bernstein.

Growth could decelerate in 2021 as many iPhone users will have already purchased AirPods, Sacconaghi says.

Apple's stock has risen more than 77% in 2019.



MARKETS



CNBC TV



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MENU



Sales of [Apple](#)'s AirPods nearly doubled to \$6 billion this year and should take another leap forward next year, according to Toni Sacconaghi of Bernstein.

The analyst said in a note Friday that Apple could sell 85 million AirPods in 2020, generating about \$15 billion in revenue. If sales of the wireless headphones grew at the same rate again in 2021, the product would become Apple's third largest business, Sacconaghi said.

Sacconaghi, who has a market perform rating on Apple's stock, is consistently rated as the top investor for IT hardware and electronics manufacturing services by Institutional Investor magazine.

AirPods Pro are [already sold out](#) in Apple Stores and at many online retailers for the holiday season, with some selling AirPods on [eBay](#) for large premiums. The Pro is sold for \$249 on Apple's website, while the regular AirPods start at \$159.

However, the AirPods' run may be short-lived, said Sacconaghi, who compared the product's trajectory to the iPad's rapidly slowing growth four years after it launched. As more iPhone users buy AirPods, there are fewer potential customers, according to Sacconaghi.

"Given AirPods' extraordinarily steep adoption curve and rapid saturation of the iPhone installed base, we see a dramatic deceleration in AirPods revenue growth by 2021 or 22, to single digit growth rates or possibly lower," Sacconaghi wrote.



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Why did Apple buy Beats for \$3.2 billion?

Has it paid off?

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On May 28, 2014, Apple announced that they would be buying Beats Electronics for a staggering \$3.2 billion, making it the most expensive acquisition Apple have ever made.

Why?

We don't even need to speculate as to why because Eddy Cue, Apple's senior vice president of Internet Software and Services, provided three reasons himself.

1) Talent

Beats Electronics was founded by two of the most powerful and influential figures in the music industry; Jimmy Iovine who co-founded Interscope Records back in the nineties, which has since become one of the most successful labels in the world. And Dr. Dre, one of the most iconic rappers in history that's also achieved great success as a record producer and audio engineer.



So when these two forces joined together to create Beats Electronics in 2006, it wasn't too surprising that the company quickly became successful. They understood what demographic listened to their music, and what type of headphone would be most

appealing to that group. This was a market that more established sound companies like Sony and Bose were overlooking for years.

That high level of talent and reputation is what Apple always looks for when creating new products and services. In fact, that's why Apple hired Tomlinson Holman, the inventor of the THX sound system, as Apple's audio director to work on products such as the HomePod. Another notable example came with the release of Apple TV+, when Apple paid some of the most high profile actors, directors, and writers, like Opera Winfrey, Steven Spielberg, and J.J. Abrams to create content for their platform.

Apple has always put an emphasis on attracting the best talent possible, which meant Jimmy Iovine and Dr. Dre fit the bill perfectly. Now the question has turned into, "What was Apple going to use their talents for?" And the answer is pretty clear: to help build a music streaming service.

This brings me onto the second reason:

2) Beats Music

In January 2014, Beats Electronics launched a music streaming service called Beats Music. They tried differentiating themselves from other services like Spotify by claiming to offer the freedom of an on-demand subscription service with "features that would give you that feeling only music that moves you can give."

Iovine often mentioned the importance of playing the right song at the right time, and that the only thing more important than the song you're currently listening to, is the song that plays next.

Beats had a design goal of creating a music service that combined songs in unique playlists, and that approach to streaming music was exactly what Apple was looking for.

At the time, Spotify was multiplying in popularity around the world and iTunes was being left behind in the dust. Apple decided they had to take swift action and, that's why, they began acquisition negotiations with Beats just four months after their Beats Music service first debuted.

Apple's rebranding of Beat's music service isn't unfamiliar, it's actually the same way iTunes was created. Apple bought a software company called SoundJam and had it's creators join Apple to develop the technology even further until it eventually became iTunes. The key point is that the software looked and behaved quite a bit differently after Apple aided in it's development.

The same can be said for Beats Music. Apple didn't simply slap their name and logo on it and call it a day. They actually spent around a year adding features and optimising the interface to make sure they were creating the best streaming service possible.

Some may argue that Apple Music, as we know it today, isn't great but there's still one more reason why Eddy Cue said Apple bought Beats, and that was for their "great headphones."



3) Headphones

Beats were made for customers who loved music with a lot of bass, and wanted headphones that delivered that. But Apple wasn't as concerned about the sound

quality or design of Beats headphones as much as they were impressed by how much revenue they generated.

In 2014 alone Beats Electronics earned over one billion dollars in sales from their headphones, which made them one of the most valuable headphone manufactures in the world. And keep in mind, Apple was working on a pair of headphones themselves: the AirPods, which were to be released two years later.



Did it pay off?

So those are the three reasons Apple bought Beats. For their talent, music service, and great headphones. But the question you might be asking now is, “was that three billion dollar purchase worth it?”

If the question comes from a revenue standpoint, the Beats acquisition was absolutely worth it. Not only is the company generating upwards of one billion dollars each year, but it helped position Apple as one of the biggest headphone manufactures in the world, in just a couple years. And that isn't even considering how much money was saved by using Beats Music as the foundation of Apple's streaming service.

Since Iovine and Dr. Dre had already established great headphones and a reputable music service, all Apple had to do was focus on the features and interface.

Apple Music didn't start of great when the service debuted in 2015: it was met with a pretty cold reception. The app was riddled with bugs, the Connect feature was criticized as being pointless, and was later removed by Apple, the interface was considered to be unappealing and difficult to navigate, and listeners were frustrated by a lack of music discovery features. Features that happened to be Spotify's strengths.

Now Apple has since updated Apple Music several times to address those issues, and is now a much better music service than it was in 2015. So while not everything worked out perfectly, the decision to buy Beats ultimately worked out in Apple's favor.

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	3.3 inches high (84.3 mm) 3.9 inches wide (97.9 mm)	6.8 inches high (172 mm) 5.6 inches wide (142 mm)
Dimensions		
Audio technology	Full-range driver and dual passive radiators	High-excursion woofer and array of seven tweeters
Spatial awareness	—	✓
Multiroom audio¹	✓	✓
Stereo pair capable	✓	✓
Home theater with Apple TV 4K	—	✓
Siri	✓	✓
Intercom²	✓	✓
Smart home hub³	✓	✓

Home

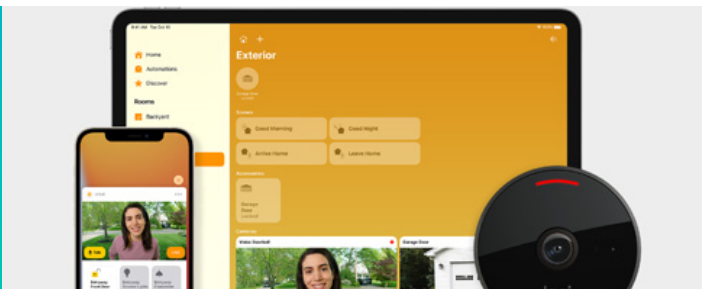
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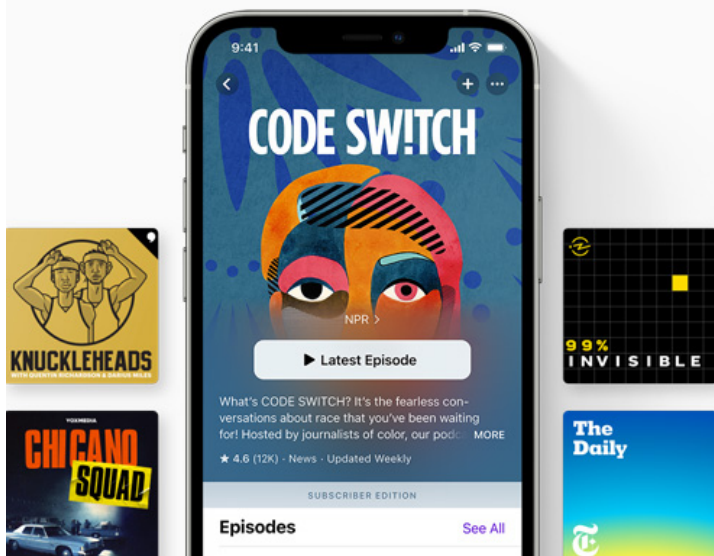
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1. Requires multiple HomePod devices or AirPlay 2-compatible speakers.
2. Requires two or more HomePod speakers.
3. Requires a HomeKit-enabled device.
4. \$9.99/month after free trial. Plan automatically renews until cancelled. Terms apply.

To access and use all the features of Apple Card, you must add Apple Card to Wallet on an iPhone or iPad with the latest version of iOS or iPadOS. Update to the latest version by going to Settings > General > Software Update. Tap Download and Install.

Available for qualifying applicants in the United States.

Apple Card is issued by Goldman Sachs Bank USA, Salt Lake City Branch.

 > Music > HomePod

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Watch
TV
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AirPods
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iPod touch
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Apple Arcade
iCloud
Apple One
Apple Card
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Apple Podcasts
App Store

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Apple Store Account
iCloud.com

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Genius Bar
Today at Apple
Apple Camp
Apple Store App
Refurbished and Clearance
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Order Status
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JANUARY 21, 2016 / 4:52 PM / UPDATED 6 YEARS AGO

Oracle lawyer says Google's Android generated \$31 billion revenue

By Steve Trousdale



SAN FRANCISCO (Reuters) - Google's Android operating system has generated revenue of about \$31 billion and profit of \$22 billion since its release, an Oracle Corp lawyer told a U.S. court hearing the software company's copyright lawsuit against Google.

U.S. job growth rose solidly in July amid demand for workers in the services industry

Android mascots are lined up in the demonstration area at the Google I/O Developers Conference in the Moscone Center in San Francisco, California, May 10, 2011. REUTERS/Beck Diefenbach

A lawyer for Google did not discuss the figure, according to a transcript of the hearing in a Northern California federal court last week. But he said the Alphabet Inc unit might be willing to disclose more information about the revenue produced by Android as part of the court proceedings, the transcript reviewed by Reuters showed.

The Android mobile operating system began with the release of the Android alpha in November 2007. The first commercial version, Android 1.0, was released in September 2008.

Oracle is accusing Google of using its Java software without paying for it to develop Android.

Google said in a court filing on Wednesday that the Android disclosures should not have been made public, and asked the court to place it under seal.

The document, which had been available electronically at a San Francisco courthouse, was removed from the publicly accessible portion of the court's computer system while a Reuters reporter was reviewing it on Thursday afternoon.

It is not clear what occurred or whether the document would become available again.

Google was not immediately available for comment. Oracle declined to comment.

The closely watched case involves how much copyright protection should extend to the Java programming language, which Google used to design the operating system. Oracle is seeking royalties for Google's use of some of the Java language, while Google argues it should be able to use Java without paying a fee.

Bloomberg previously reported the Oracle lawyer's comment.

U.S. job growth rose solidly in July amid demand for workers in the services industry

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U.S. job growth rose solidly in July amid demand for workers in the services industry

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Android now powers 2.5B devices

 techcrunch.com/2019/05/07/android-now-has-2-5b-users/

Frederic Lardinois

[Frederic Lardinois](#) [@fredericl](#) / 2 years



At its I/O developer conference, Google today announced that Android now runs more than 2.5 billion devices. That's up from 2 billion the company announced two years ago.

This means overall Android growth remains on pace, though it's not exactly accelerating. From September 2015 to May 2017, the company added about 400 million new devices. It took another two years to add 500 million additional devices.

Android remains the most popular mobile operating system, though over the course of the last few years, Google also invested in [KaiOS](#), the outgrowth of Mozilla's failed Firefox OS. We haven't heard much about KaiOS at I/O so far, but there is a good chance this platform will become more important over time as more users come online in developing countries, something Google is quite aware of.

| [Google has 2 billion users on Android, 500M on Google Photos](#)

Google
I/O 2019
MAY 7-9 • MOUNTAIN VIEW

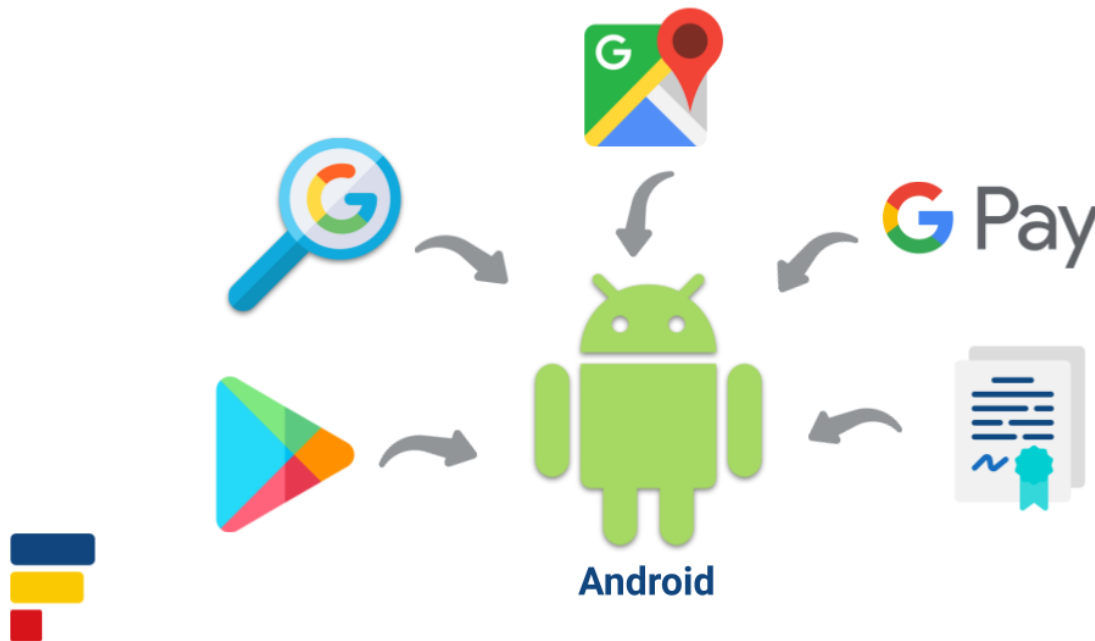
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How Google Makes Money from Android: Business Model Explained

 kamilfranek.com/how-google-makes-money-from-android/

January 14, 2020



Android is a widely successful mobile operating system. It competes shoulder to shoulder with iOS, mainly in English speaking countries and dominates in non-English speaking ones. Android is open source, and Google mostly does not charge any licensing fee for it. So why Google spends billions of dollars each year for its development? How does Google make money from Android? Is Android profitable for Google?

There are three main ways how Google makes money from Android (\$19bn a year) :

- **Play Store:** revenue would not exist without Android (\$9.1bn)
- **Search:** without Android, Google would need to pay more to phone manufactures for keeping it as a default search engine (\$7.5bn)
- **Maps:** part of the revenue is dependant on Android (\$2.2bn)



How Google Makes Money From Android



Estimate



Google Play

This revenue wouldn't exist without Android.

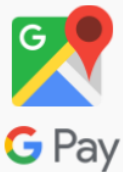
$\$29.3 \text{ bn app revenue} \times 25\% \text{ avg. profit share} + \$1.8 \text{ bn (Music/Books/Movies)} =$
\$9.1 bn



Mobile Search (costs savings)

Without Android, traffic acquisition costs to have Google as a default search engine on smartphones would be much higher.

average annual saving estimate (net)
\$7.5 bn



Google Maps & Google Pay

Without Android, user base significantly more limited for Google Maps. Google Pay would not probably exist.

$\$4.3 \text{ bn Maps} \times 50\% \text{ decrease} + \$0 \text{ bn} \times 100\% \text{ (Pay)} =$
\$2.2 bn



Licensing Fees

Option within the European Union only if the manufacturer wants Google Play services without Google Search & Google Chrome (currently rare)

$\$2.50 \text{ to } \40 per device
\$0.0 bn



Other Benefits of Android

Much less business risk for Google to be pushed around by phone manufacturers, behavioral data about Android users, Pixel Phones revenues and other.

Total
per year

\$18.8 bn

As you can see, even though Google does not make money from Android directly through licensing, it earns a sizable part of Google's (Alphabet's) revenue from Android. In the rest of this article, I will breakdown different Android revenue streams and walk your through its

business model. I will also show you that the Android that most consumers use is far from “open source,” and Google keeps a very tight grip around it.

Android How You Know It Is Not Open Source

You have probably heard that Android is Open Source, and any phone manufacturer can use it for free.

Well, it is not totally accurate, because it depends on which kind of Android we are talking about. **The only Android that is free & open source is the “bare” Android system without Play store and other core Google services.**

Only a few manufacturers use “bare” Android, and there is a good reason most manufacturers do not use it. Consumers simply do not like it. **Not having access to Google Play App Store is a deal-breaker for most of them.**

One example worth mentioning is Amazon’s Fire Phone that was based on “bare” Android, and one of the reasons it failed was that it did not allow access to Play Marketplace. But Amazon was not able to use “bare” Android as it is. It was forced to create its own app store and replace many Google apps with its own. Amazon put a lot of energy into it, but it simply did not work out, and Fire Phone does not exist anymore.

Another manufacturer that was forced to use bare Android recently is Huawei. For them, it was not a choice but merely an unwanted result of China vs. US trade war. Below you will find a great video from MKBHD where he very well explains issues Huawei faces by being forced to use bare Android.

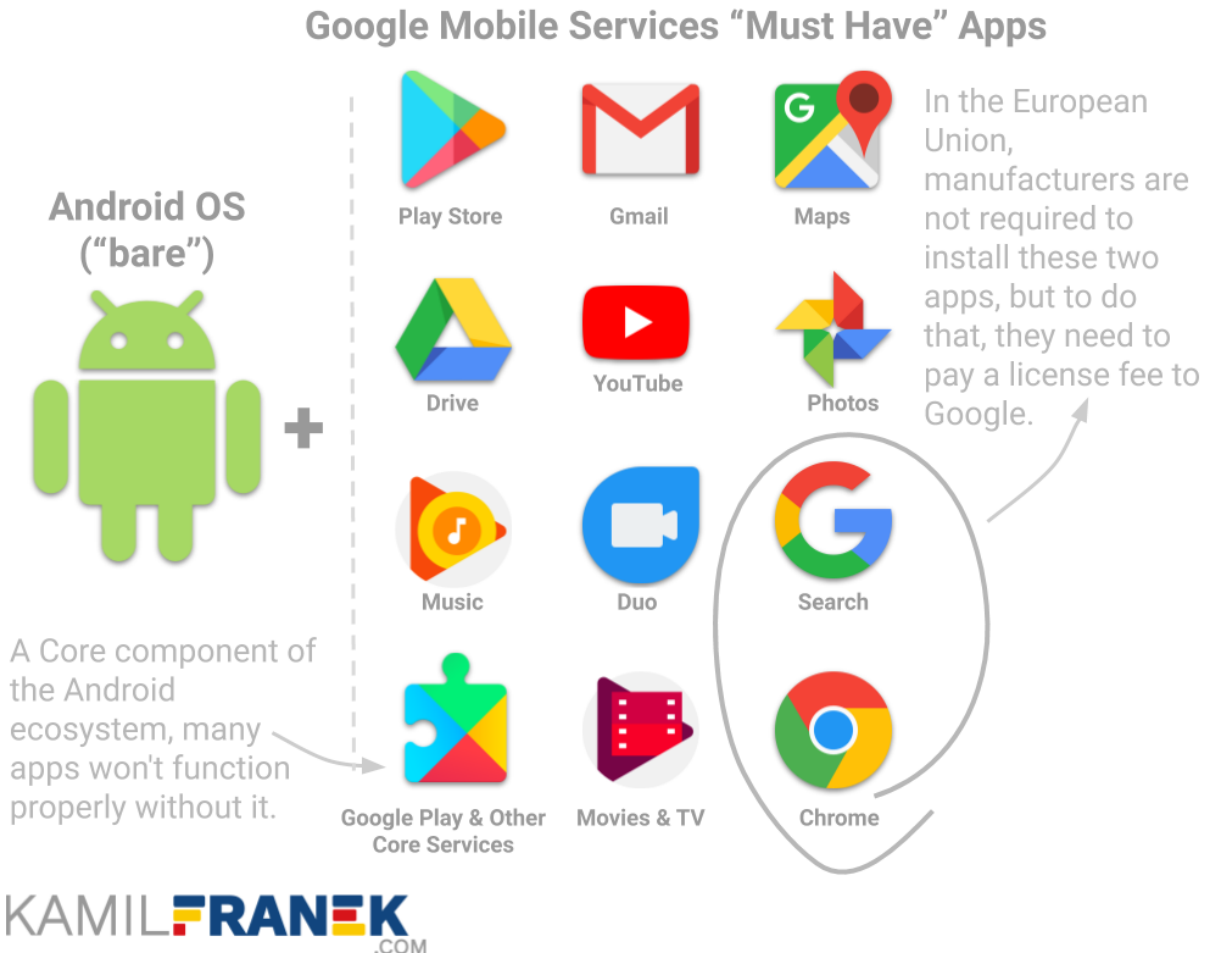
So If we disregard this “bare” Android version than we can clearly say that **Android is not open source but proprietary Google’s software.** To use it, the manufacturer does not need to pay anything, but they need to comply with many of Google’s conditions to be able to use the full version of Android with Play and other Google’s apps.

Conditions that phone manufacturers need to comply with to get a free license to install Android with Play:

- The manufacturer needs to include all other apps like YouTube, Gmail, Maps Photo, and mainly Search and Chrome.
- They need to make Google Search default
- Manufacturers have to push Google apps to a prominent place on the home screen
- and also, a manufacturer that wants to use Android phones with Google Play cannot use other modified versions of bare Android on different devices.

Android Is Open Source, but Google Play Services and Other Google Apps Are Not, and You Are Screwed without Them.

To be able to install Google Play Services and Google Play App Store, phone manufacturers have to include all the apps below and meet many other conditions to qualify for a “free” license.

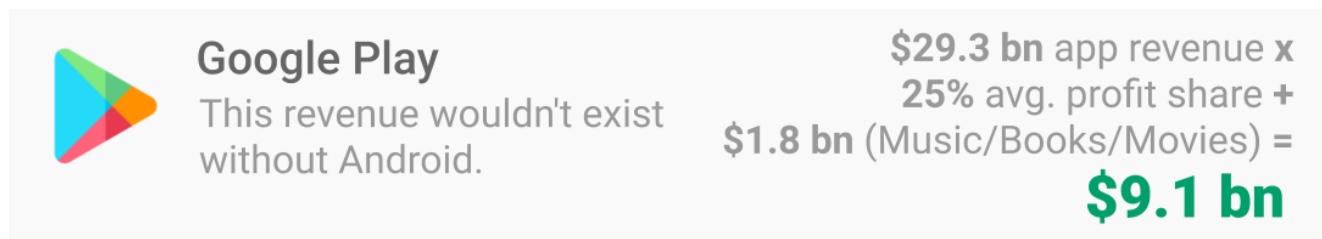


Since 2019, some of the conditions are not relevant anymore in the European Union as a result of the EU antitrust case against Google. Phone manufacturers can offer “forked” Android versions without fear that Google would not prolong their licenses for devices that use the Google Play store.

They can also use the Play Store & Play Services without installing Search and Chrome. To do that, however, they need to pay the licensing fee to google that was announced to be somewhere between \$10 and \$40 depending on screen resolution.** In some countries, licenses for lower-end phones can go as low as \$2.50.

● How Android Makes Money through Google Play

Revenue coming from Google Play is, according to my estimate, the biggest piece of Android's business model in terms of revenue. If Android did not exist, then there wouldn't probably be any app store owned by Google and any related revenue. Therefore we can associate 100% of Play revenue with Android.



Lets' have a look at different ways how Google Play makes money for Google (Alphabet) and estimate the connected revenue in more detail.

Google Play Store purchases and in-app payments

Google Play is a distribution channel for Android apps that Google operates. It contains mostly apps from third-party developers. Most of them are free, but some of them are paid.

Since Google is business and not non-profit, it charges a fee for providing this easy distribution channel and payment processing to app developers. **It charges them 30% of the amount consumers pay for the apps or as an in-app payment.** For regular subscription-based payments, it charges 30% for the first-year subscription consumer pays and **15% from all subsequent years.**

Based on Sensor Tower, total spend on **Play App Store is estimated to be \$29.3bn in 2019.**

Google's revenue from the distribution of Music, Video, and Books.

Apart from the app store, Google provides several different apps like Play Movies & TV, Play Music, and Play Book, which allows users to stream or download digital content from other publishers. For example, Google currently has 15 million subscribers for its music-streaming service.

These apps are part of “must-have” apps that phone manufacturers have to include on every Android phone if they want to install Google Play on it. Therefore it gives these apps prominence against other similar digital content services that are not readily pre-installed on the android phones, and consumers need to download it first to be able to use it.

It is hard to imagine that Google would offer these types of apps if Google did not own Android, so again I estimate that all of the revenue from these apps would not exist without Android.

Estimate of Google Play related revenue

Let's try to translate it into numbers. To estimate Google Play revenue, we, unfortunately, cannot rely on Google's official financial results because Google does not disclose its results in such detail.

If you want an overview of Alphabet Inc's financial results, which is a holding company of Google LLC. I've put together [step by step walkthrough of Google's \(Alphabet's\) financial statements in one of my previous articles.](#)

If you look at Google's annual income statement, you will see that in **2018 Google's (Alphabet's) revenue was \$137bn.** Most of it was advertising related but **\$19.9bn was "other income"** that included revenue from Google Play, Google Cloud and also Hardware Sales.

Unfortunately, **Google does not tell us how much from those \$19.9bn is revenue from Google Play.** But if we put together some market data about total app spend from Google Play and already mentioned , we can easily estimate this ourselves.

Estimate of Google Play Revenue for 2019:

- **\$29.3bn** estimate of Google Play App Spend in 2019 by SensorTower.com
- **+ \$1.8 bn** estimated revenue from digital content (Video/Music/Books)
- **= \$9.1 bn** Google Play revenue

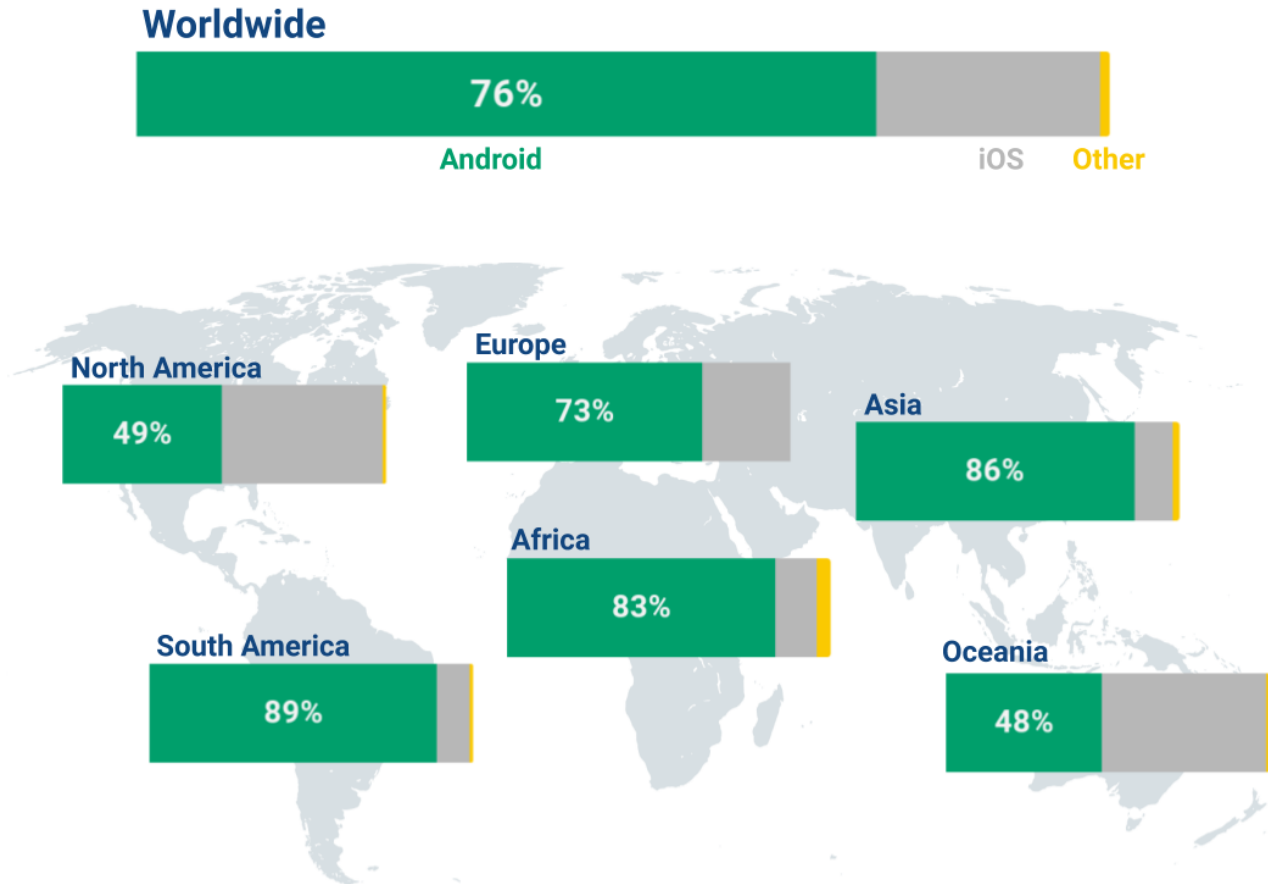
Google Play Apps spend vs. Apple's App Store spend

Although this is not entirely must know for estimating Google Play revenue, I would like to point out one fact about Android App spend vs. Apple App Store spend.

Even though the estimated number of active Android phones is multiple of iPhones, spend on the Apple App store is significantly higher than Google Play Spend. As I mentioned earlier **Google Play app spent in 2019 is estimated to be \$29.3bn compared to \$54.2bn spend on Apple's App Store.**

Android Operating System Dominates Worldwide

Market share of mobile operating systems based on pageviews with a breakdown by geographical regions



KAMILFRANEK.COM

Source: gs.statcounter.com

Different factors come into play here. iPhones compared to Android phones do not offer many “budget” options and therefore have, on average higher purchased price. These customers are far likelier to spend more on digital content too. The second factor is geographical. Android has a dominant market share in low-income regions (Asia, Africa, South America), where consumer purchase power is far lower than in developed countries.

● How Google’s Android Makes Money through Mobile Search

Google makes the most money from advertising, and a large part of advertising revenue is from mobile advertising. By following this pattern, it might look at first that Google is making the most money from Android through mobile search-related advertising too and that we can

just look up how much money Google earns from mobile search, and we would get the amount that is earned by Android.



Mobile Search (costs savings)

Without Android, traffic acquisition costs to have Google as a default search engine on smartphones would be much higher.

average annual
saving estimate
(net)

\$7.5 bn

However, that would be the wrong approach, and in this part of the article I will try to persuade you that **Google would still be able to earn most of its revenue from mobile search even without Android and impact on mobile advertising revenue would not be catastrophic.** Android is crucial for Google, but the core reason is not advertising income.

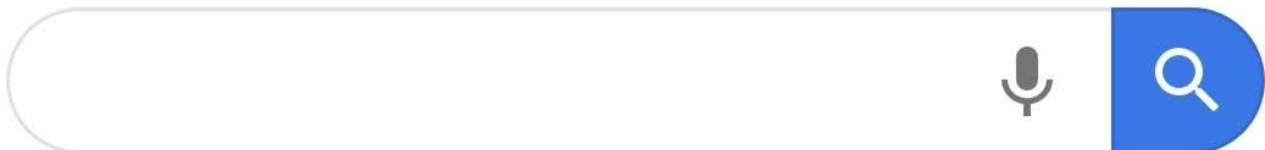


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IMAGES



Google



The first problem with associating Google's mobile revenue with Android's revenue is simply that **mobile search advertising revenue is not coming only from Android phones but also iPhones.** And even if we concentrated solely on mobile advertising revenue coming from Android users, we just cannot assume that this income would just disappear without Android.

Currently, **Google (Alphabet) has to pay billions of dollars each year to Apple to keep Google as default search engine** and it is reasonable to assume that if Google did not own Android, it would be able to reach similar profit-sharing agreement with other manufacturers as it managed to do with Apple.

Another reason why I am quite optimistic that Google's position in Google search would not be significantly hit without Android is that currently **Google is the top search engine out there in terms of quality of results**. The quality of the product is so good that consumers would prefer it anyway. And if consumers will like it, hardware manufacturers will prefer it too, especially if they will also be paid for it.

An excellent example of how consumers prefer Google Search is Google Search on Windows computers. Google dominated Search from Windows computer even though it did not own Windows, and it did so even before it introduced its Chrome Browser.

The fact is that **Google already pays profit share from advertising revenue also to other phone manufacturers like for example Samsung for the exclusive use of Google Search on its devices**. Even though Google owns Android, it still has to pay profit share to Samsung, which dilutes the difference between Android and iPhones from Google's point of view. It seems that only smartphone that Google can be sure that it does not need to pay profit-sharing from is the smartphone Google produces itself, which is Pixel. Unfortunately, Pixel does not have such a significant market share currently.

Approach to estimate Android's value for Google's mobile advertising revenue

In the previous part, I explained why I think that mobile advertising revenue would be only slightly affected if Android did not exist or wasn't owned by Google (Alphabet). Let's now look for the best way how to estimate the value Android has for Google's (Alphabet's) mobile advertising.

One approach would be to estimate Google's advertising revenue from Android phones, assuming Google would just let it disappear without making any changes (e.g., higher profit sharing for manufacturers). In that case, we might estimate impact by **applying some reasonable decrease (10% to 30%) on a mobile search revenue and that would be the revenue that Android is responsible for**.

The problem with this is that it is **unrealistic**. If Android for some reason stopped being owned by Google, Google would not stay still and let the revenue drop, **Google would try to stop this possible revenue decrease by making deals with phone manufacturers and probably offering them higher profit share**.

Therefore, **Impact of Android on mobile search advertising revenue would be better estimated as an increase in traffic acquisition costs than as a revenue decrease**.

How much Google pays to Apple and Samsung each year to use Google Search as default

So my approach will be to estimate the value of Android from mobile search advertising **by determining how much more money Google would have to pay to smartphone manufacturers if Google would not have the advantage of owning Android**. My estimate is that this increase can be anywhere between 50% to 150%, and I will further work with **mid-value of 100% increase in traffic acquisition cost** that Google pays to phone manufacturers that currently use Android, which is presently mainly Samsung.

To get to some specific numbers, we have to know how much Google is paying to Android phone manufacturers based on current profit-sharing agreements. We can either look at estimates done by various analysts that are flying around in financial news articles and also look at what we can find about it in Alphabet's (Google's) annual report.

Estimates of Google traffic acquisition cost toward device manufacturers from outside analysts cited in other articles (with link to the source)

(in billions \$)	2014	2015	2016	2017	2018	2019
Apple	<u>1.0</u>	?	?	<u>3.0</u>	<u>9</u>	<u>12</u>
Samsung	?	?	?	<u>3.5</u>	?	?
Other	?	?	?	?	?	?

Total traffic acquisition costs for Google own sites from Google's annual report

(in billions \$)	2014	2015	2016	2017	2018	2019*
TAC to distribution partners	-3.6	-4.1	-5.9	-9.0	-12.6	-14.5

**2019 is estimated based on Q1-Q3 results*

Note that the total traffic acquisition costs (TAC) include not only costs for mobile but also other channels. But we know from Google's annual reports that mobile has higher traffic acquisition costs than desktop search, so we can assume that most of the cost is connected with mobile search.

By comparing estimated and the total numbers, we can see that since 2018, the numbers do not add up.

For example, in 2017, conventional estimates are that Google paid \$3bn to Apple and another \$3.5 billion to Samsung. It is \$6.5bn just for these two device manufacturers. Total from Google's annual report for 2017 is \$9bn, which means that if the estimates are correct,

then there is another \$2.5bn of traffic acquisition cost paid to different partners. So far, so good.

The issue arises when you try to do a similar sense check from 2018 and 2019. We don't have estimates from analysts about how much Google paid to Samsung in 2018 and 2019, but since it is a profit-sharing agreement, it would have to go up too because of an increase in mobile traffic. The problem is that if you take this into account and also that there are probably also other partners that google pays traffic acquisition cost to, **the total of analyst's estimates is higher than total from Alphabets annual report.**

How is it possible? There might be different explanation **but my view is that estimates for 2018 and 2019 for Apple are unrealistically high.** Especially jump between 2018 and 2017 is too steep to believe it is true. I simply don't buy that those numbers are right and for my purposes **I adjusted 2018 and 2019 estimates downward to make sure that total ties to official Google's figures and its growth.** It's not perfect but better than what is currently available from other sources.

Adjusted Estimates for traffic acquisition cost to device manufacturers.

(in billions \$)	2014	2015	2016	2017	2018	2019
Apple	1.0	?	?	3.0	5.0	6.0
Samsung	?	?	?	3.5	5.2	6.3
Other	?	?	?	2.5	2.4	2.2

Now we simply have to add 2019 number for Samsung (\$6.3bn), and my estimate of how much from Other row is Android-related (\$1.2bn). The result is **estimated cost of \$7.5bn that Google will pay to Android phone manufacturers in 2019.**

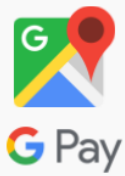
My estimate was that Google would be able to keep mobile advertising revenue even if Android did not exist, but it would mean paying twice as much in traffic acquisition cost. That means that **by owning Android, Google saved \$7.5bn in 2019 and this number will only go up in future years.**

How Much Revenue Android Makes from Google Maps

Google Maps is estimated to earn **\$4.3bn a year** mainly from advertising and expectation is that Google will push monetization of this service in the coming years, and revenue will grow significantly.



Google Maps have 1 billion monthly active users and it is evident that **if Google did not own Android number of these app users would probably be significantly lower**. Just take into account that Google Maps is one of the apps that Google pushes down on Android phone manufacturers by packaging it together with Google Play Store. Device makers, therefore, have to preinstall in on their phones and even show it on one of the home screens.



Google Maps & Google Pay

Without Android user based significantly more limited for Google Maps and Google Pay would not probably exist.

\$4.3 bn Maps x
50% decrease +
\$0 bn * 100% (Pay) =
\$2.2 bn

My estimate is that **without Android number of users could drop by 50%**. Since annual revenue from Google Maps is estimated \$4.3bn a year than it means that **Google Maps revenue that Google is earning thanks to Android is \$2.15bn in 2019** and this number will grow in future years.

If you want to dig deeper into how Google Maps makes money for Google, check out [my article that will walk you through how Google Maps works and how it earns \\$4.3bn a year.](#)

● How Much Money Android Makes from Google Pay

Google Pay is one of the apps that is hard to imagine that would exist if Google did not own Android. Therefore my estimate is that all revenue from Google Pay can be treated as Android-related revenue.

How much money would Google loose if Google Pay did not exist? **Answer for 2019 is \$0 because currently, Google Pay does not earn any money.** But in several years, this might not be true anymore, and Google Pay will probably make billions each year.

I wrote [article specifically about how google pay earns money](#), where I also included my own estimates of how much revenue can this app generate for Google in future. If you are interested in Google Pay revenue-making potential, I recommend you to check it out.

● How Android Makes Money from Licensing Fees

Another income stream of how Google can make money from Android is **from licensing fees**. This is a new income stream that did not exist until 2018. And it was not Google's choice to introduce it.



Licensing Fees

Option within the European Union only if the manufacturer wants Google Play services without Google Search & Google Chrome (currently rare)

\$2.50 to \$40
per device
\$0.0 bn

As I explained earlier, before 2018, Android, with all its main features, was hard to consider Open Source. It was only a theoretical option if manufacturers used its bare version. But even the proprietary Android version with Google Play Store was free if manufacturers meet different conditions required by Google.

European Union fine of €4.3bn in 2018 (for abusing the market dominance of its Android operating system to extend the reach of Google's search engine) **change that and Google was forced to introduce new option for manufacturers that allow them to license Google Play and other apps without Chrome and Google Search.** However, if they chose this option, they have to pay a licensing fee to Google.

In the following video, EU Commissioner Margrethe Vestager announces €4.34bn fine for Google and offers a clear explanation of Google's illegal practices and what specifically Google needs to change to avoid penalty payments.

Licensing fees would differ for different phones based on its screen resolution, which is a way how to make it dependent on price. Based on some reports, it would range between 40\$ for most pricey phones to \$10 for phones with low screen resolution. For lower-end phone in selected countries, it might be even as low as \$2.5.

The introduction of this new licensing option was not the only way how Google complied with the EU findings. One of the issues the EU found was also that Google forbids manufacturers that want to use a version of Android with Google Play to offer any other "forked" versions of bare Android. This will no longer be required.

Google has also already **announce results of the first EU auction to add three third-party search engine choice as part of Android setup screen**. Which is another step in how to comply with EU findings.

So far **all these changes are available only for devices sold within European Union** (or more precisely European Economic Area). So customers outside the EU won't benefit from these new choices.

It is probably too early to evaluate if these new licensing options will see some significant adoption by manufacturers. But so far **we did no see any considerable adoption by major manufactures** and therefore even total **revenue that Android generates thanks to new licensing option is immaterial**.

The first phone that was introduced under new licensing options was a phone from French smartphone maker Wiko. But until this new option gets picked up by some more prominent smartphone manufacturers it will remain immaterial.

As I mentioned earlier, **new licensing option that Google offered is not very popular among device manufacture so far, and therefore my estimate of revenue coming from this new income stream is \$0.0bn.**

Interestingly, **theoretical maximum Android revenue from licensing fees** Google might generate if all manufacturers would offer Android with Google Play without Google Search is **around \$7.7bn** (2.2bn phones * 10\$ licensing fee per device / 2.87 average device lifetime) which is another approach how to estimate value of Android for mobile search advertising, and it is **very similar to my estimate of \$7.5bn traffic acquisition cost increase**.

● Other Ways How Google Makes Money or Benefit from Android

In this article, I so far mentioned different business models through which Android generates revenue for Google. Some of them, like Google Play, would probably don't even exist if Google did not own Android, and some of them would exist, but Android revenue might be negatively impacted (Mobile Search, Google Maps).

There are many other benefits that Android brings to Google. Some of them are hard to translate into actual numbers, but that does not mean they are not crucial for Google.

List of Other Benefits

- **Android significantly reduces Google's business risk and gives them the power to influence smartphone markets and offerings.** Without Android, Google would be too dependant on manufacturers and would have a much weaker negotiation position to include Google Search and other Google's services their devices. It is always better to be in direct control of users' "entry point" to the internet. Android with Google Chrome Browser helps to do that.
- **Behavioral Data is another crucial benefit Google gains from Android.** If you want to use an Android phone, it requires you to have Google Account and be signed in, and although you can find some workarounds to avoid that, they significantly limit users' experience. Therefore when most of people use Android, they are signed in to Google, and Google has access to invaluable data about their behavior. Constant sign-in on Android phones also helps Google target the ads without relying on traditional cookies.
- Google uses Android to **push its free app** like Chrome, Photos, Drive, Duo, and YouTube. Without Android reach of these apps would be far more limited.
- Google earns money from **in-app advertising** in Android apps, and even though this income stream would probably exist even without Android, it definitely helps a lot to be the owner of the platform and be able to influence its development priorities.



How Much Revenue Android Makes Compared to Total Alphabet Inc. Revenue

Based on estimates I did in this article, the revenue of Alphabet Inc (Google) without Android would probably be **lower by \$11.3bn** and its **traffic acquisition cost higher by \$7.5bn**. When we compare it to total revenue of **\$137bn of Alphabet Inc in 2018** we can see that Android is crucial for Google.

To allow better comparison with total revenues in 2018 in the following chart, I transformed all numbers to 2018 values, and instead of traffic acquisition cost-saving for Google Mobile Search transformed into revenue (assuming 50% incremental profit margin).

If you want to explore Google Financials further I recommend [my article reviewing their recent annual report](#).



Android Market Share Overview vs. Competitors

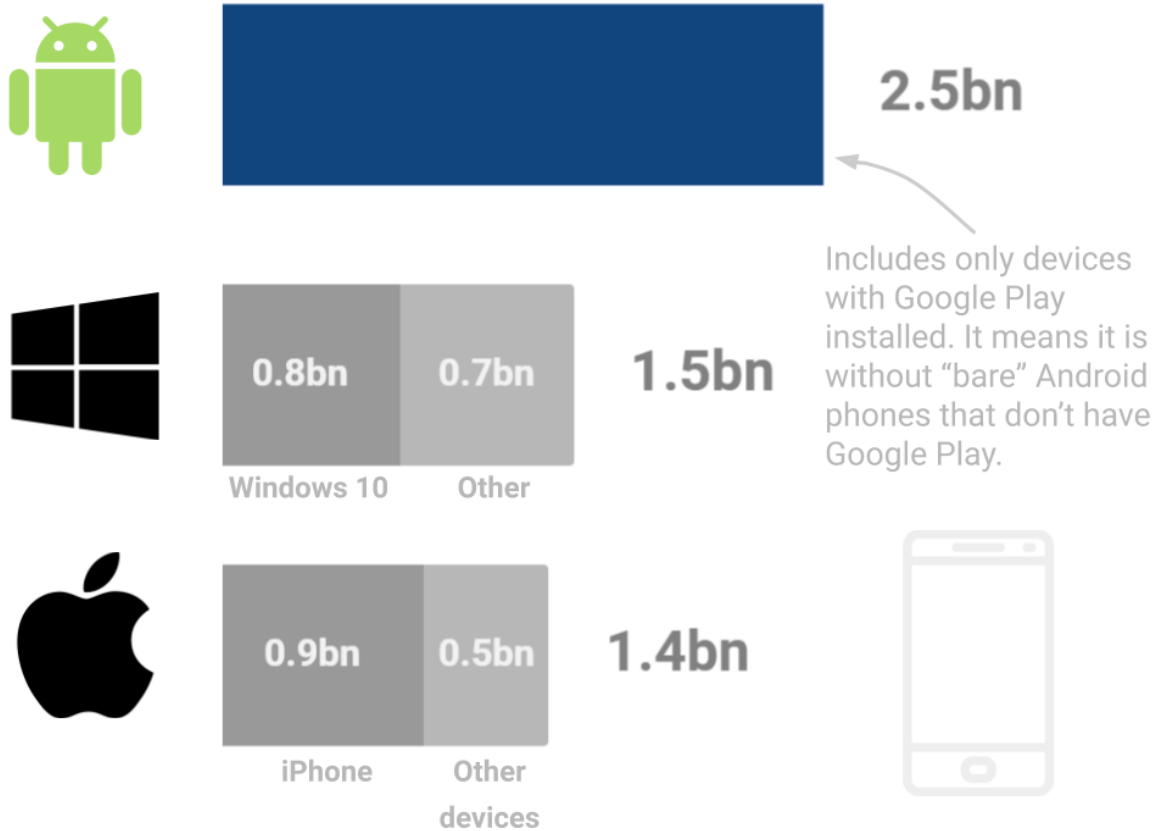
To Understand the Android position on the market, let me share with you several numbers and charts showing the Android market share from different points of view.

Firstly, let's have a look at a comparison of active install devices by the operating system, which tells us how many active devices with a given operating system are out there. **Android with 2.5bn active devices** dominates not only on smartphones but on any platform.

Windows with dominant position within OS for desktops **is in second place overall with 1.5bn active devices**. **Apple** which uses its own operating system is on third place **with 1.4bn of active devices**.

Android Is the Most Popular Operating System Worldwide Based on Number of Active Devices

Number of active devices for top operating systems worldwide (2019)



KAMILFRANEK.COM

Source: zdnet.com

Unfortunately, I did not find data split that would tell us exactly how much of 2.5bn of Android devices are smartphones, so we cannot directly compare Android smartphones with iPhones. But since we know Android is much less successful on tablets and other smart android based devices, I guess that the number of non-smartphone devices would not be lower than 0.5bn for Apple.

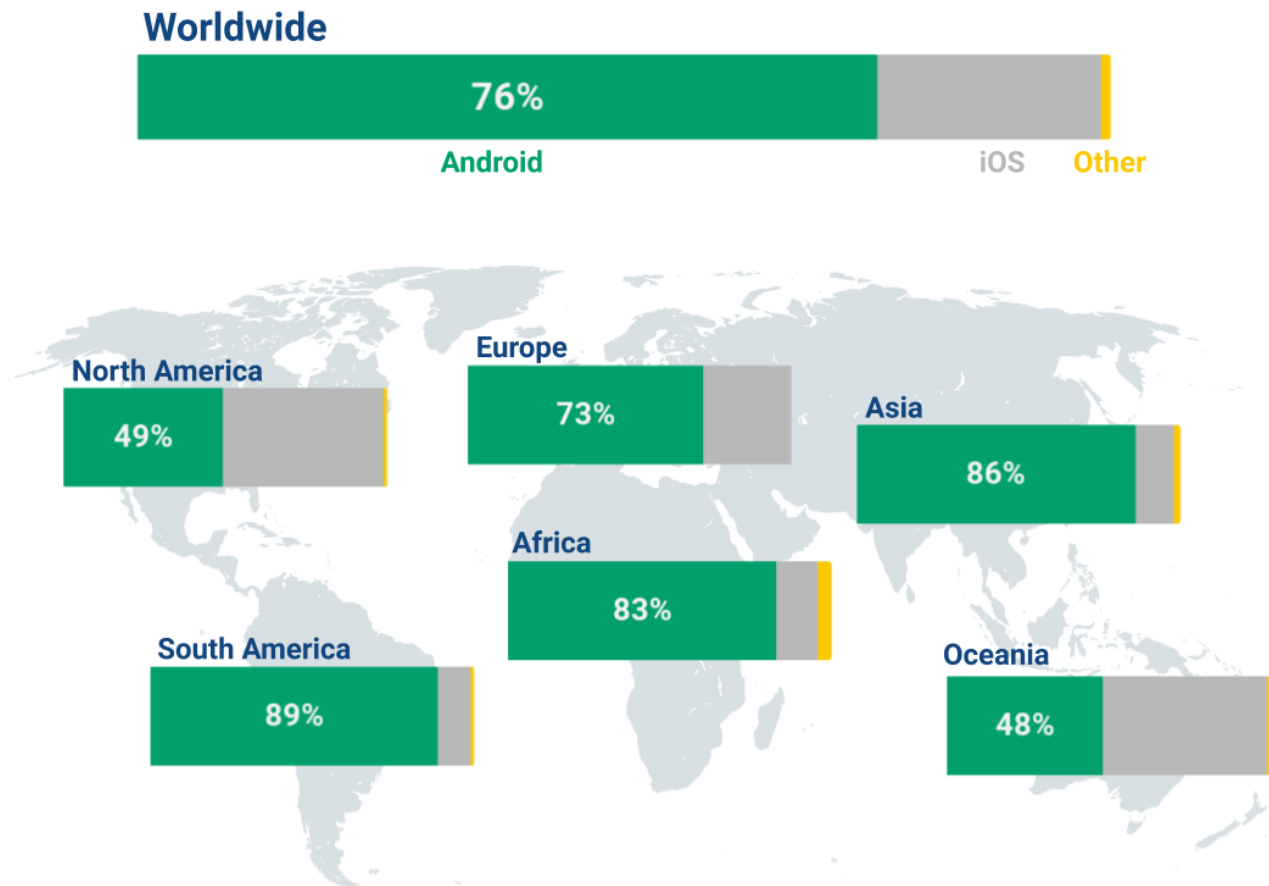
This would give us **around 2.1-2.2bn estimated active android smartphones vs. 0.9bn active iPhones**. Which would mean **70% market share of Android on active smartphones worldwide**.

The problem is that these numbers do not include devices with a bare Android system that do not have Google Play. Those are popular mainly in Asia.

Fortunately, we have another way how to compare the market share of Android vs. iOS on mobile phones by comparing pageviews originated from different devices. This approach gives us **Android worldwide market share of 76%**

Android Operating System Dominates Worldwide

Market share of mobile operating systems based on pageviews with a breakdown by geographical regions



This approach also gives us a much more granular look at market share by different regions and even countries.

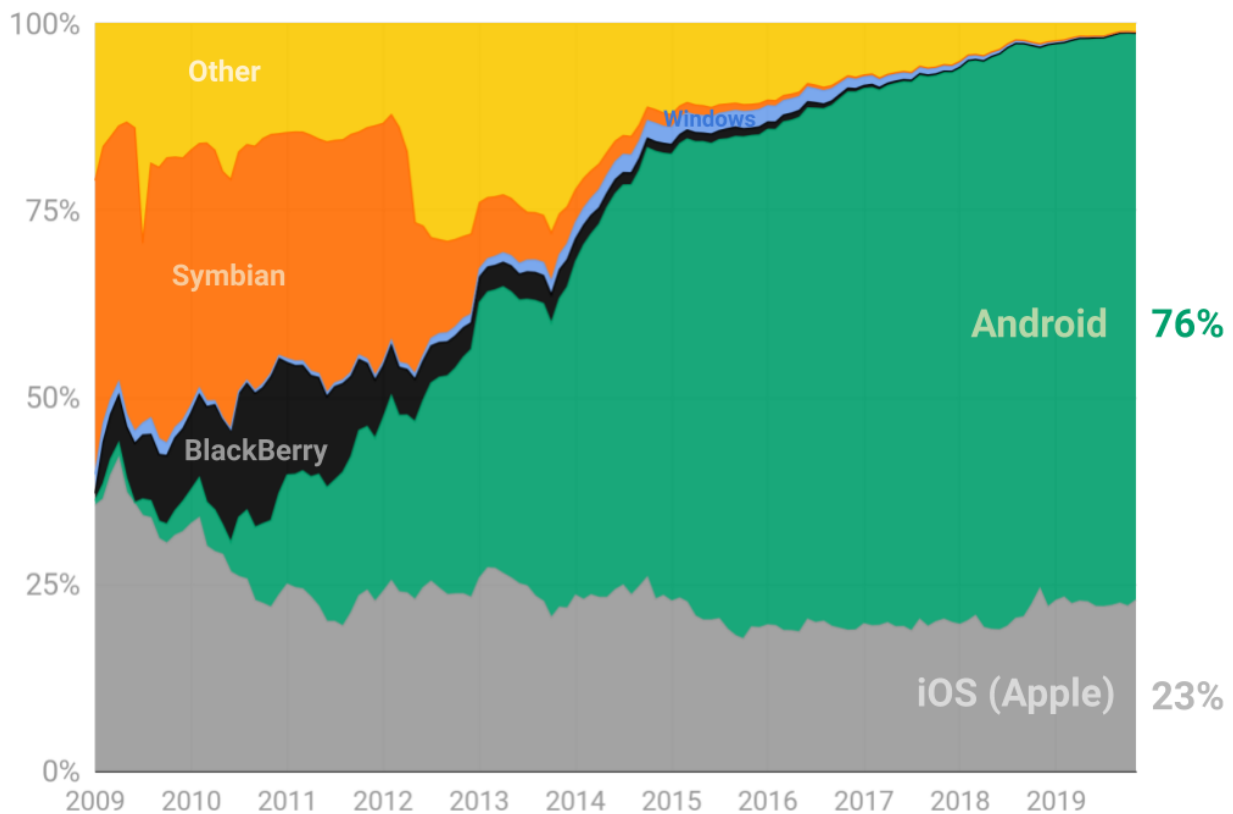
As you can see from the chart with an overview of market share around the world above, **Android is dominant around the world except mainly in English speaking regions of North America and Oceania.** And the same is true also when we look at individual English

speaking countries (UK, Ireland). That might be just false causality because English speaking countries are usually richer ones. Still, cultural differences might be helping it too since some rich countries are also dominated by Android (like Germany or France).

Android did not get to its dominant position overnight. It took Android a decade to get to its current position worldwide, as you can see from the following chart.

Android is Dominating Worldwide Smartphone Internet Traffic with 76% Market Share

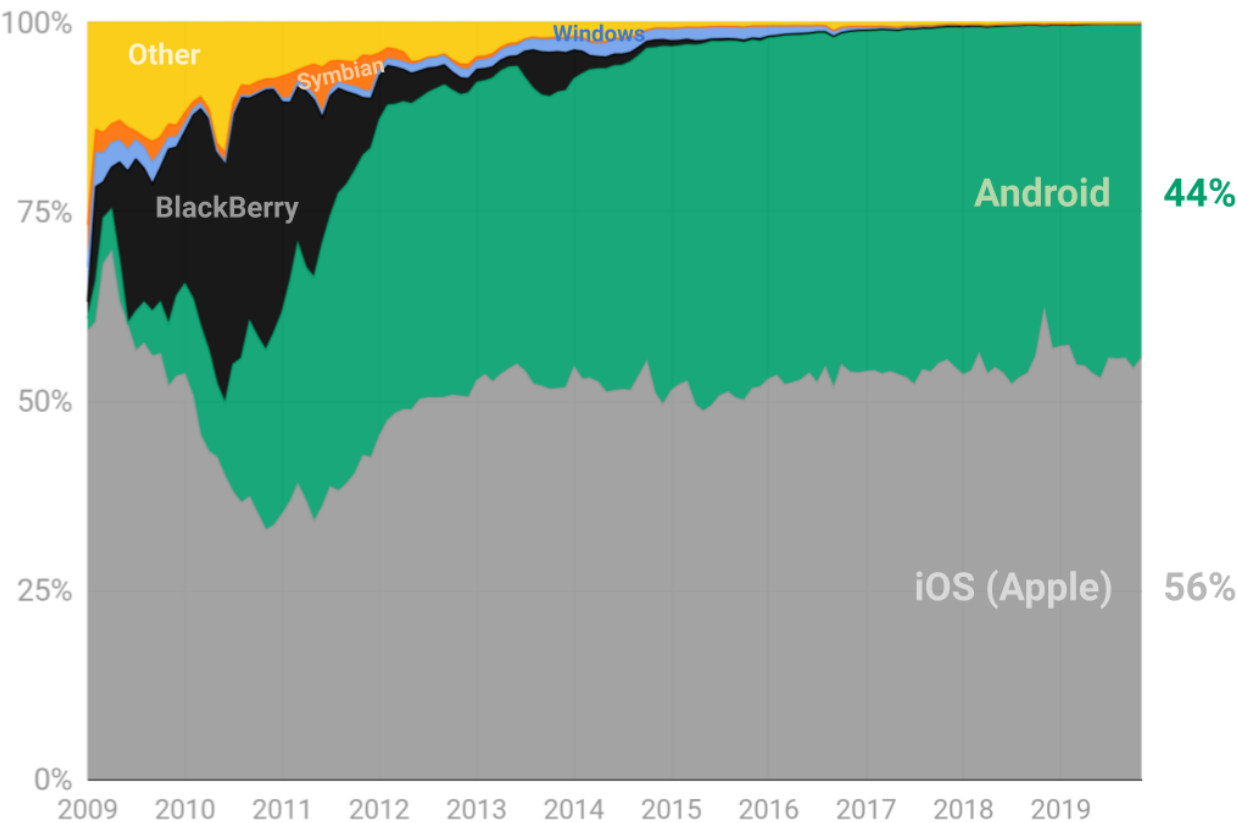
Worldwide market share of operating systems based on pageviews from mobile devices.



The chart below shows the same development in the US market. You can see that although Apple's market share (based on page views) is higher in the US, Android achieved its position quicker in the US than worldwide. You can also see that Android growth was not so much at Apple's expense but mainly at the expense of alternative OS like Blackberry, Windows Mobile & Symbian.

Android Has 44% Share of US Smartphone Internet Traffic

US market share of operating systems based on pageviews from mobile devices.



July17

Timeline of Important Events Related to Android and Its Business Models

Year	Month	Event
2005	July	Google acquired Android for \$50 million
2007	June	Apple launched the first iPhone
2008		The first Android OS version 1.0 was introduced
2008	Oct	The first-ever Android smartphone T-Mobile G1 hit the market

Year	Month	Event
2013	June	Apple made Bing the default search engine for Siri but not for the Safari browser on the iPhone
2017		Google replaced Bing as the source of web search results for Siri by Google
2018	Jul	EU fined Google €4.34bn for anti-competitive practices related to Android
2018	Oct	Google offered a new licensing option of devices sold within the EU as a reaction to EU investigation of its illegal practices that resulted in €4.34bn fine.
2019	Dec	<u>Google launched its “Chat” service</u> that is iMessage alternative for Android users.
2020	March	Android users in EU <u>will get a choice of 4 search services as part of Android setup.</u>



Resources & Links

- [Alphabet/Google's Annual Report 2018 \(10-K\)](#)
- [Example of older Google's MADA Agreement](#): Agreement that phone manufacturers are required to sign to be able to use Google Play and that forced them to include in prominent manner also other Google's services.
- [Overview of consumers spending in Mobile Apps in 2019](#) (SensorTower)

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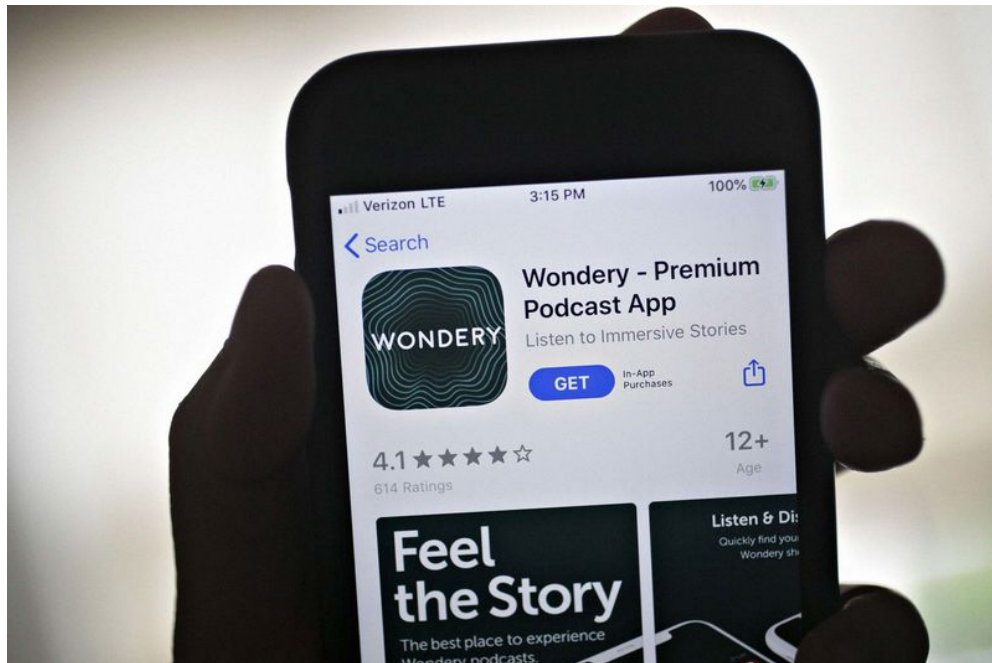
Amazon's Purchase of Wondery Is a Big Bet on Podcast Advertising

Targeted ads—and all those Echo devices—could give the e-commerce giant a distinct advantage.

By

Spencer Soper

January 7, 2021, 6:00 AM EST



PHOTOGRAPHER: ANDREW HARRER/BLOOMBERG

The joke in the podcast industry is that the year ahead is always the year that on-demand audio will finally go mainstream. In some respects it's already there: More than 100 million people in the U.S. listened to podcasts each month in 2020, while such popular programs as [The Joe Rogan Experience](#) and the [New York Times' The Daily](#) have amassed large, loyal audiences, though podcasting is still dwarfed by over-the-air radio in terms of both overall audience and revenue.

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[Amazon.com Inc.](#)'s Dec. 30 announcement that it was acquiring 4-year-old podcast network [Wondery](#) has industry insiders again saying the medium could turn a corner in the new year. The investment follows [Sirius XM Holdings Inc.](#), [Spotify Technology SA](#), and a string of others spending hundreds of millions of dollars to buy podcasting companies.

Podcast Listeners in the U.S.

Figures represent people who listen to a podcast at least once a month

Data: EMarketer

At the time of its deal with Amazon, Wondery remained one of the largest existing independent podcasting studios and networks. Bloomberg reported in November that [Apple Inc.](#), which has bought at least two other podcast companies, and [Sony Music Entertainment](#) had each [held talks about acquiring it](#). Terms weren't disclosed, but the *Wall Street Journal* [reported](#) that Amazon paid about \$300 million. The company declined to comment. (Bloomberg LP, which owns *Bloomberg Businessweek*, has partnered with Wondery on the podcast [The Shrink Next Door](#).)

Amazon is well-positioned to translate Wondery's audience into advertising revenue, something the industry is still figuring out. "Podcasts have huge audiences, but they're still the most undermonetized media around," says Dave Zohrob, chief executive officer of [Chartable](#), a podcast analytics firm.

COEX-

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Wondery founder and CEO Hernan Lopez.SOURCE: WONDERY

Although some podcasts earn money from subscriptions, a significant part of the business proposition is based on their potential to draw advertising dollars that go to traditional radio. Ad revenue for U.S. radio totaled \$12 billion in 2020, but it's on the decline; podcast advertising revenue, which reached \$1.1 billion in 2020, will keep growing, according to market researcher [EMarketer Inc.](#) Wondery could fit well into Amazon's \$13 billion advertising business, which is gaining on industry leaders including [Alphabet Inc.](#)'s Google and [Facebook Inc.](#)

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Founded by former TV executive Hernan Lopez, Wondery reaches a monthly audience of more than 8 million, according to Podtrac, an industry measurement firm. Listeners can hear such hit shows as *Dirty John* and *Dr. Death* free with advertising or subscribe for \$5 a month to hear them without ads. Wondery will become part of [Amazon Music](#), which is included in the company's \$120 annual Prime subscription. Amazon also tries to lure its 50 million Amazon

COEX-
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Music listeners to a bigger content catalog for an additional \$8 a month. Its audiobooks business, [Audible](#), and its video game streaming service, Twitch, are already working on podcasting as well.

In a statement announcing the deal, Amazon said nothing would change for Wondery's existing listeners, but the company could experiment with its new podcast network in various ways, such as turning shows into video programming for Prime Video or using Wondery programming to increase engagement for its smart speakers.

Amazon's main advantage may be its ability to improve targeting on podcast ads, given its rich data on customers' preferences and purchase histories. It has a platform that lets advertisers use algorithms to buy ad space on its e-commerce website, which it's also using to sell more audio advertising on Amazon Music. Amazon could also provide performance metrics to convince advertisers they aren't wasting their budgets on commercials nobody hears, a problem that's made big brands skittish about podcasts.

"Amazon knows who you are and what you've been looking into," says Chartable's Zohrob. "They can really make the ads effective."

Read next: [How Facebook Plans to Turn WhatsApp Into a Moneymaking Business](#)

BOTTOM LINE - Amazon is well-positioned to help leverage the increasing audience for podcasts into a major source of advertising revenue.

Before it's here, it's on the Bloomberg Terminal. [LEARN MORE](#)

COEX-8.101

Amazon to Acquire Podcaster Wondery

The Wall Street Journal

December 31, 2020 Thursday

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THE WALL STREET JOURNAL.
U.S. EDITION

Section: Pg. B1

Length: 517 words

Byline: By Benjamin Mullin

Body

Amazon.com Inc. said it agreed to acquire podcast producer Wondery, the online retail giant's latest move to beef up its audio offerings.

Amazon didn't disclose the purchase price, but a person familiar with the matter said it was about \$300 million. The Wall Street Journal this month reported Amazon was in exclusive talks to purchase Wondery.

Founded in 2016, Wondery is one of several audio startups that blossomed in recent years as podcasting caught on with advertisers and listeners. Wondery is known for its gritty, narrative-driven podcasts that apply cinematic sound design to nonfiction stories.

Amazon said acquiring Wondery -- the maker of true-crime shows like "Dr. Death," "Dirty John" and "The Shrink Next Door" -- would allow the company to deepen its podcast offerings.

Wondery podcasts will continue to be available to listeners on a variety of platforms free of charge when the deal closes, Amazon said. Wondery will be joining Amazon Music, the division of the company that offers listeners music-streaming and podcasts.

Several other podcast startups have been acquired in recent years as technology, radio and news companies seek new listeners. Spotify Technology SA recently bought Gimlet Media, the Ringer and Parcast, expanding its capacity for producing and monetizing podcasts. Dow Jones & Co., publisher of the Journal, has a content partnership with Spotify's Gimlet unit.

Last year, radio company Entercom Communications Corp. purchased podcasters Pineapple Street Media and Cadence13. And this year, the New York Times announced the acquisition of Serial Productions, maker of the hit podcast "Serial."

Amazon to Acquire Podcaster Wondery

Wondery Chief Executive Hernan Lopez will be leaving the company after the deal closes, an Amazon spokeswoman said. Jen Sargent, the chief operating officer, will take over management of Wondery upon Mr. Lopez's departure, the spokeswoman said.

After the deal closes, Mr. Lopez will focus on the Hernan Lopez Family Foundation, a new initiative aimed at combating systemic bias, the people said.

In April, Mr. Lopez was charged with participating in an alleged scheme to pay millions of dollars in bribes to soccer officials in exchange for broadcasting rights when he was an executive at Fox Sports. Mr. Lopez has denied the charges. A lawyer for Mr. Lopez, Matthew Umhofer, has said the portion of the federal indictment that mentioned Mr. Lopez "alleges nothing remotely improper."

The subsidiary where Mr. Lopez worked, Fox International Channels, was absorbed by Walt Disney Co. in 2019. Amazon didn't comment on the charges against Mr. Lopez. Fox said in a 2017 trial that it didn't know about any bribes. Fox declined to comment. Disney didn't respond to a request to comment.

The Wall Street Journal's parent News Corp and Fox Sports parent Fox Corp. share common ownership.

Wondery's funders include Waverley Capital, Advancit Capital, Lerer Hippeau and Greycroft. Its last funding round, in June 2019, valued the company at more than \$100 million. It is on pace to increase its revenue to more than \$40 million this year.

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Notes

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[Google to Stop Selling Ads Based on Your Specific Web Browsing; Citing privacy concerns, Google says it won't use technologies that track individuals across multiple websites](#)

The Wall Street Journal Online

March 3, 2021

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THE WALL STREET JOURNAL.

Section: TECH; Technology

Length: 1242 words

Byline: By Sam Schechner and Keach Hagey

Body

Google plans to stop selling ads based on individuals' browsing across multiple websites, a change that could hasten upheaval in the digital advertising industry.

The Alphabet Inc. company said Wednesday that it plans next year to stop using or investing in tracking technologies that uniquely identify web users as they move from site to site across the internet.

The decision, coming from the world's biggest digital advertising company, could help push the industry away from the use of such individualized tracking, which has come under increasing criticism from privacy advocates and faces scrutiny from regulators.

Google's heft means the change could reshape the digital ad business, where many companies rely on tracking individuals to target their ads, measure the ads' effectiveness and stop fraud. Google accounted for 52% of last year's global digital ad spending of \$292 billion, according to Jounce Media, a digital ad consultancy.

Heard on the Street

* [Google Can Now Afford to Let the Cookies Crumble](#)

About 40% of the money that flows from advertisers to publishers on the open internet—meaning digital advertising outside of closed systems such as Google Search, YouTube or Facebook—goes through Google's ad buying tools, according to Jounce.

"If digital advertising doesn't evolve to address the growing concerns people have about their privacy and how their personal identity is being used, we risk the future of the free and open web," David Temkin, the Google product manager leading the change, said in a blog post Wednesday.

Google to Stop Selling Ads Based on Your Specific Web Browsing; Citing privacy concerns, Google says it won't use technologies that track individuals across mu....

Google had already [announced last year](#) that in 2022 it would remove the most widely used such tracking technology, called third-party cookies. But now the company is saying it won't build alternative tracking technologies, or use those being developed by other entities, for its own ad buying tools to replace third-party cookies.

Instead, Google says it will use new technologies it has been developing with others in what it calls a "privacy sandbox" to target ads without collecting information about individuals from multiple websites. One such technology analyzes users' browsing habits on their devices, and allows advertisers to target aggregated groups of users with similar interests, or "cohorts," rather than individual users. Google said in January that it plans to begin open testing of ad buying using that technology in the second quarter.

Google's planned change [elicited some concerns in the ad world](#). At the moment, advertisers use the data harvested from people's browsing across the web to figure out whom to serve ads to, and whether a targeted user went on to buy the advertised product. After Google's change, advertisers won't be able to get as detailed a picture of either. Still, other ad industry executives said the change is good for consumers and expressed hope that Google's new targeting technologies will still help brands achieve their goals in online marketing.

Google's latest move and the concern about its potential implications underscore tension in the digital ad industry between protecting user privacy and promoting competition. Smaller digital-ad companies that use cross-site tracking have accused Google and Apple Inc. of using privacy as a pretext for changes that hurt competitors.

Among the tech giants, Google and Apple have signaled they want to rein in user tracking in various ways. Facebook Inc. has struck a different tone, arguing that individualized ad targeting helps small businesses that otherwise would struggle to find customers.

Some analysts said Google could stand to benefit from the end of cross-website tracking because it is less reliant on data from other companies. Instead, it collects a large amount of data directly from users of its services, such as YouTube or Google Search. Google says it will still use that data, called "first-party" data, when targeting ads to be shown on its own websites. Many large advertisers also have a lot of first-party data on their customers.

"If you can only target based on first-party data, then the people with the most first-party data do best," said Benedict Evans, an [independent analyst](#).

Google says its new technologies, such as the cohorts that will be calculated on users' own devices, have worked nearly as well as one-to-one targeting in its internal tests.

The company said its announcement on Wednesday only covers its ad tools and unique identifiers for websites, not mobile apps, meaning a substantial slice of the digital ad ecosystem wouldn't be affected. Mobile ad spending accounted for 68% of all digital ad spending in the U.S. in 2020, according to eMarketer, a market-research firm, though that figure includes advertising on the mobile versions of websites, not just mobile apps.

The Google plan is the latest sign that the tide might be turning on user tracking more broadly. Apple [plans to limit tracking of app usage](#) by requiring developers to get opt-in permission from users before collecting an advertising identifier for iPhones. At the same time, European Union privacy regulators have [fielded multiple complaints](#) about the information that websites share with third parties about what content users are viewing as part of such tracking.

Facebook Chief Executive Mark Zuckerberg in January [said in an earnings call](#) that "Apple has every incentive to use their dominant platform position to interfere with how our apps and other apps work."

In the U.K., the Competition and Markets Authority, the country's top antitrust regulator, last month [opened a formal probe](#) into Google's phasing out of third-party cookies from its Chrome browser. The probe stemmed from a complaint from a group of marketers that argued Google's plan would cement the company's clout in online advertising.

Google to Stop Selling Ads Based on Your Specific Web Browsing; Citing privacy concerns, Google says it won't use technologies that track individuals across mu....

A Google spokesman said the company has been briefing the U.K. regulator on its plan to end its own use of unique tracking across multiple websites.

Google's announcement complicates advertising industry efforts to come up with an alternative, more privacy-friendly technology for targeting individual consumers, such as the one being led by the Partnership for Responsible Addressable Media, a group of advertisers and advertising technology companies. That plan would rely on new identifiers, like strings of numbers and letters derived from users' email addresses.

Google acknowledged that others may push ahead with different ways to track users. "We realize this means other providers may offer a level of user identity for ad tracking across the web that we will not," Mr. Temkin wrote in the blog post. "We don't believe these solutions will meet rising consumer expectations for privacy, nor will they stand up to rapidly evolving regulatory restrictions."

Jonathan Mayer, a professor of computer science and public policy at Princeton University, said Google still has to fill in many details on its plans.

"These are proposals that read like a company that's under enormous regulatory pressure and is trying to find a last-minute plausible compromise to stave off regulation," Mr. Mayer said. "They've done the easy stuff and they haven't done the hard questions."

Google says that its new ad targeting technologies will promote privacy by design and the company has already chosen to make a long-term bet on privacy at the cost of user-level precision.

Write to Sam Schechner at sam.schechner@wsj.com and Keach Hagey at keach.hagey@wsj.com

[Google to Stop Selling Ads Based on Your Specific Web Browsing](#)

Notes

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Here's why Amazon's new music ambitions should scare Apple and Spotify

Nathan McAlone Sep 27, 2016, 10:32 AM



Amazon is readying its own separate music service to compete with Apple Music and Spotify, and “will release more details in the coming weeks,” [according to Bloomberg](#), which cites a person with knowledge of the matter.

[Getty/Charley Gallay](#)

The streaming plan will reportedly cost around \$5 per month and [Bloomberg says](#) Amazon will “probably lose money on the monthly fee.”

That should scare competitors like Apple, Spotify, and Pandora. Why? Because it suggests Amazon is prepared to lose a big chunk of money on the service if that means making Amazon's Echo speaker family and its Alexa digital assistant part of your everyday life.

Let's say Amazon loses \$5 per person, per month, on the service. That's a lot of money, but it would still probably be worth it, according to Greg Portell, an analyst at consulting firm A.T. Kearney. “Amazon's currency is engaged users, not subscribers to a music streaming service,” [he told Bloomberg](#). “If music helps them get you on their platform, the benefits for Amazon far exceed \$5 a month.”

We don't yet know what the full feature set for Amazon's music service will be, and it could end up having a lot more limitations than the all-you-can-eat buffet of Spotify or Apple Music. An [earlier report](#) from Recode's Peter Kafka said this cheaper plan will only work with Amazon's Echo player, citing industry sources.

But if Amazon can afford to lose \$5 per person, it potentially could put out a product that could compete with Spotify and Apple, and put them in a tough position. Spotify lost \$194 million last year, and is [reportedly](#) looking to IPO in the second half of 2017. It's hard to make money selling subscriptions to music streaming services, especially if Amazon doesn't have to, and is trying to poach your customers.

The video playbook

Amazon has benefited from similar positioning in the video streaming market, where it competes with the likes of [Netflix](#), HBO, and [Hulu](#).

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"We get to monetize [our subscription video] in a very unusual way," [Amazon CEO Jeff Bezos said this summer](#). "When we win a Golden Globe, it helps us sell more shoes. And it does that in a very direct way. Because if you look at Prime members, they buy more on Amazon than non-Prime members, and one of the reasons they do that is once they pay their annual fee, they're looking around to see, 'How can I get more value out of the program?' And so they look across more categories — they shop more. A lot of their behaviors change in ways that are very attractive to us as a business. And the customers utilize more of our services."

Amazon can use TV shows and music to help it sell more shoes, Echo speakers, or Prime subscriptions. Bezos doesn't have to sweat the margins in the same way as competitors like Spotify or Netflix, whose entire business is built around a single offering.



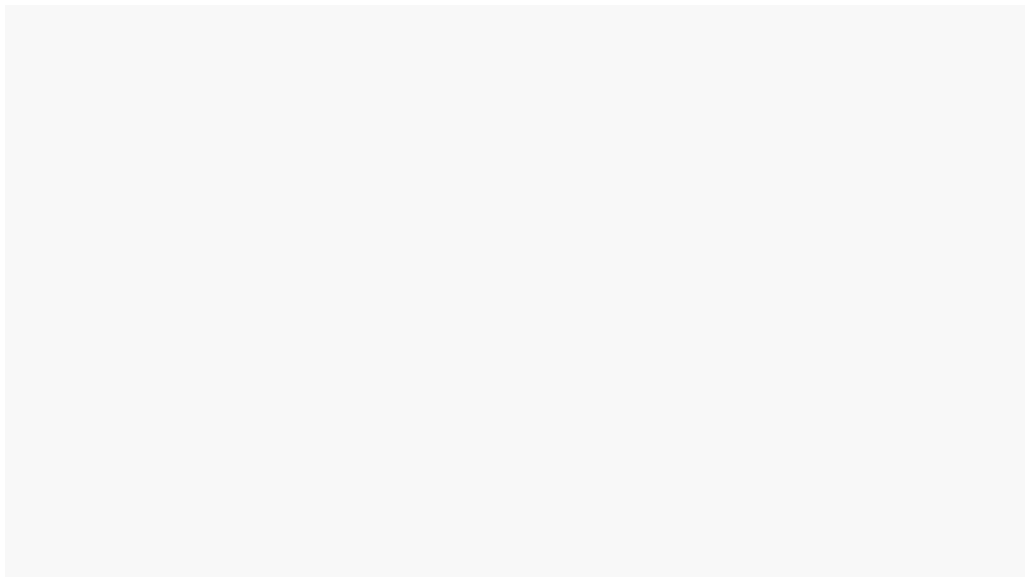
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HOME > MUSIC > MUSIC NEWS

APRIL 19, 2019 2:31PM ET

Amazon Music Is Available for Free Now

Amazon launches a free, ad-supported music service for Alexa users

By **AMY X. WANG** 



Valentin Wolf/imageBROKER/REX/Shutterstock

Amazon's free music-streaming service has launched in the U.S. — but the tech giant is making anything but a big deal out of it. The ad-supported free service quietly became available this week exclusively through Alexa, Amazon's voice assistant programmed into Echo devices, indicating that Amazon is more interested in promoting its own software/hardware ecosystem than being an aggressive competitor to Spotify's free music tier.

“Since the launch of Amazon Music, customers have been able to use the simplicity and magic of voice to request music in fun, innovative ways,” the company wrote in a **blog post** Thursday, emphasizing the ties between music and voice discovery. “And so, beginning today, customers in the U.S. who do not yet have a Prime membership or a subscription to Amazon Music Unlimited

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When rumors begin swirling a few days ago of an imminent free music tier from Jeff Bezos's tech juggernaut, many speculated that the crowded music-streaming market was about to see a major new rival, and Spotify's stock price even **dipped** as a result. But the modest, Alexa-only launch of the service — which lacks even a branded name of its own — positions it only as a driver of Echo sales and advertising income.

Midia Research analyst Mark Mulligan wrote in a blog post that this type of new product aligns with Amazon's rising ambitions in the tech ad revenue space. "While Spotify investors were right to get twitchy at the Amazon rumors, it is Facebook investors who should be paying the closest attention," Mulligan said, pointing to the fact that Amazon has grown its advertising business from \$2.9 billion to \$10.1 billion in two years. (Facebook brought in \$50 billion in 2018.)

MarketWatch analyst Russ Crupnick **told *Variety* that** he doesn't see Amazon's new free tier "changing anything major" in the music ecosystem. "It will probably have little impact on the established players — Spotify has incredible loyalty with its listeners and I don't see people marching off to Amazon because it's going to have a free tier," Crupnick said. "Amazon has a much more casual audience — it's large, but they spend much fewer hours [on the platform] and are generally less engaged with music."

Outside of the new Alexa-only free service, Amazon offers premium, ad-free music via both Amazon Music, which is included as part of \$119-a-year Prime membership and offers 2 million songs, and Amazon Music Unlimited, which costs \$7.99 a month and offers 50 million songs.

In This Article: Amazon, music streaming



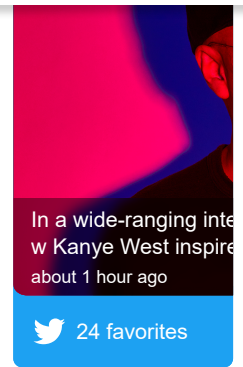
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See what Alexa can do

Echo Studio - High-fidelity smart speaker with 3D audio and Alexa

Brand: Amazon
★★★★★ 29,101 ratings
| 1000+ answered questions
Amazon's Choice for "3d music"

Price: \$199.99 & FREE Returns

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- with Echo Sub
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- Immersive sound – 5 speakers produce powerful bass, dynamic midrange, and crisp highs. Dolby Atmos technology adds space, clarity, and depth.
- Ready to help - Ask Alexa to play music, read the news, and answer questions.
- Voice control your music - Stream songs from Amazon Music, Apple Music, Spotify, Pandora, Tidal, and more. With Amazon Music HD, listen to over 75 million songs in the highest quality audio formats available: HD, Ultra HD, and 3D formats like Dolby Atmos.
- Adapts to any room - Automatically senses the acoustics of your space, fine-tuning playback for optimal sound.
- Built-in smart home hub - Ask Alexa to control Zigbee-compatible devices.
- Keep your family in sync - Use your Alexa devices like an intercom and talk to any room in the house with Drop In and Announcements.
- Designed to protect your privacy – Amazon is not in the business of selling your personal information to others. Built with multiple layers of privacy controls including a mic off button.

We want you to know

Currently spatial audio is available for Amazon Music Unlimited customers as an upgrade at no extra cost. For an immersive home theater experience, you can use Echo Studio with Fire TV Cube 1st Gen or 2nd Gen, Fire TV Stick 4K or Fire TV (3rd Gen). This does not work via Bluetooth pairing or with older generations of Fire TV Stick or Fire TV. [Learn more about this product.](#)

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Meet Echo Studio

You've never heard an Echo like this before. Echo Studio creates an immersive, 3-dimensional soundscape, wrapping you in studio-quality audio from every direction.

Just ask Alexa to play a song, artist, or genre and hear new details revealed in your favorite music. Plus, use your voice to check the weather, set alarms, and control compatible smart home devices.



Bring out the best in your music

Human ears care where sound is coming from. Echo Studio turns that evolutionary truth into a revolutionary advantage. Five strategically positioned speakers generate room-filling sound, sending different parts of the song to your ears from different directions. It's music as the artist intended, as immersive as it is expansive.

The next dimension in audio

Hearing is believing. Whatever the source, Echo Studio makes your music sound incredible. Built-in Dolby Atmos technology enables a multidimensional audio experience, adding space, clarity, and depth. Echo Studio is the only Echo smart speaker that plays new music formats mastered in 3D and Ultra HD.



Ready for what's now - and what's next

Stream your favorite song, artist, album, genre, or playlist through Amazon Music, Apple Music, Spotify, Pandora, Tidal, and more. In addition to over 50 million songs in high definition, an [Amazon Music HD](#) subscription gives you unlimited access to millions of songs in Ultra HD and a growing catalog of 3D music—up to 10x the bitrate of standard streaming services and currently only available on Echo Studio.

Adapts to any room

Echo Studio automatically analyzes the acoustics of your room, fine-tuning playback for optimal sound, no matter where it's placed.



Alexa is happy to help

Make your life easier at home. Use your voice to set timers, add items to lists, and create calendar events and reminders. You can also check the news.



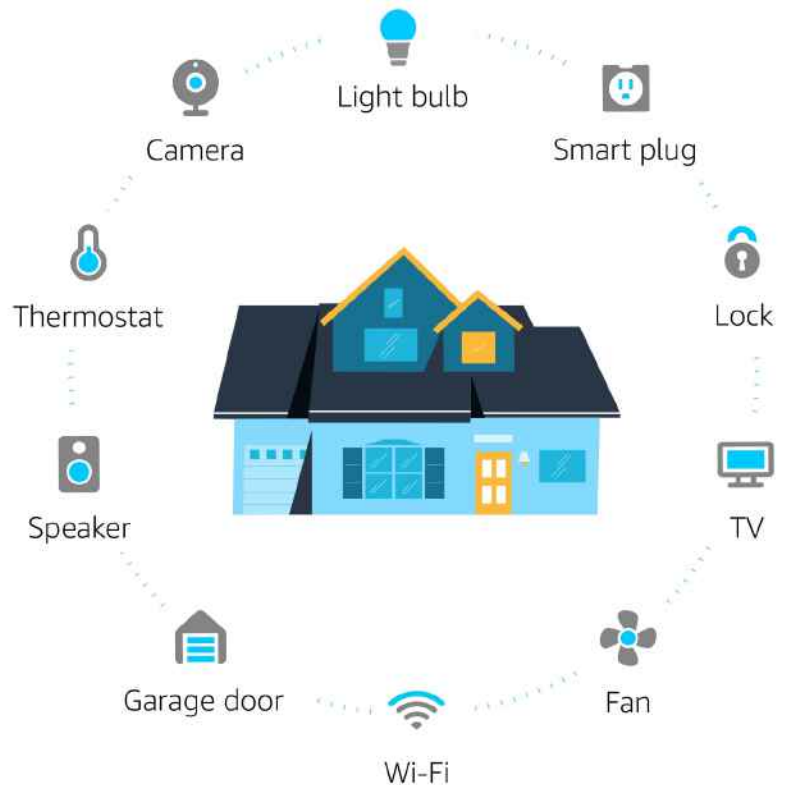
weather, or traffic. Ask for sports scores, movie showtimes, restaurant hours, or information.

"Alexa, what's on my calendar?"

Start your smart home

Connect to and manage your smart home with the built-in hub. Just power on compatible products and say, "Alexa, discover my devices." Alexa will automatically detect and set them up so you can control lights, plugs, and more with your voice. This simple setup process works with dozens of compatible devices that use Zigbee. Echo Studio also supports every Works with Alexa device.

You can also set up Guard for free in the Alexa app to get mobile alerts if your Echo device detects the sound of a smoke alarm or glass breaking while you're away. And subscribe to Guard Plus for an Emergency Helpline you can call through your Echo and more. [Learn more about Guard and Guard Plus.](#)



Big entertainment, better together

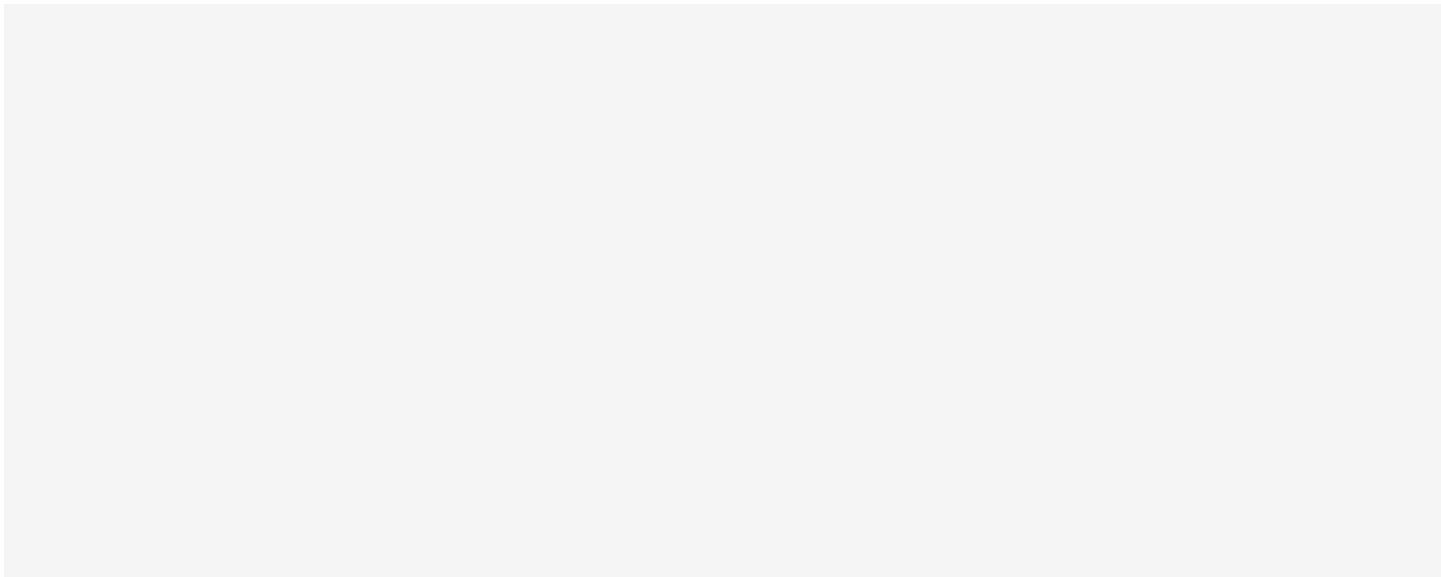
When you wirelessly connect Echo Studio with Fire TV Cube (1st Gen or 2nd Gen), Fire TV Stick 4K or Fire TV (3rd Gen), you'll feel scenes come to life. You can also play and control music across multiple Echo devices with multi-room music. Or pair with a second Echo Studio or Echo Sub for even bigger, richer sound.

Designed to protect your privacy






Alexa and Echo devices are built with multiple layers of privacy protection. For example, Echo Studio has a microphone off button that electronically disconnects the microphones. You also have control over your voice recordings. [You can view, hear, or delete them at any time.](#) [Learn more.](#)



Simple to set up and use

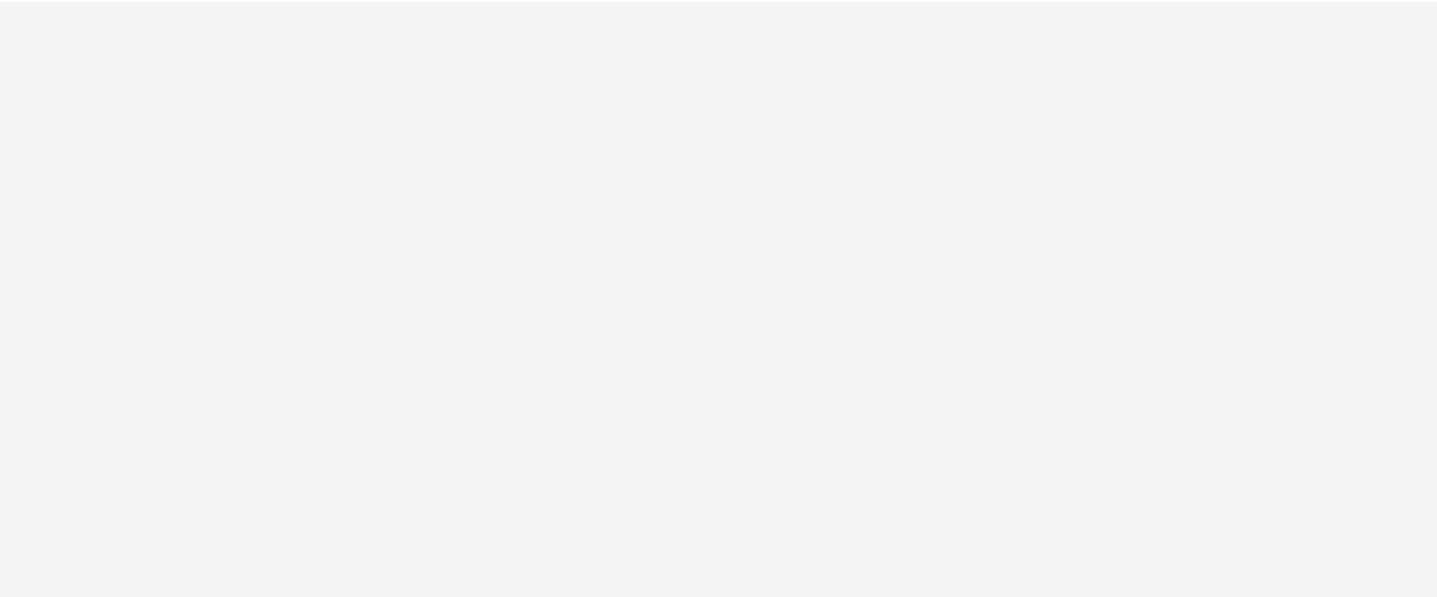


Compare Echo devices

	 Echo Flex	 Echo Dot (3rd Gen)	 Echo Dot (4th Gen)	 Echo (4th Gen)	 Echo Studio
Price	From: \$24.99	From: \$24.99	From: \$49.99	From: \$99.99	From: \$199.99
Ratings	★★★★☆ (93,417)	★★★★☆ (769,574)	★★★★☆ (364,296)	★★★★☆ (80,638)	★★★★☆ (29,101)
Alexa built in	✓	✓	✓	✓	✓
Speakers	0.6" mini speaker	1.6" speaker	1.6" front-firing speaker	3.0" woofer and dual front-firing 0.8" tweeters	1.0" tweeter, three 2.0" mid-range speakers, and

					5.3" woofer
Line in/out	3.5 mm line out	3.5 mm line out	3.5 mm line out	3.5 mm line in/out	3.5 mm or mini-optical Toslink line in
Dolby technology				Dolby audio	Dolby Atmos
Built-in Zigbee smart home hub				✓	✓
LED clock display			Featured on Echo Dot with clock		

Technical details



See full details

Size	8.1" height x 6.9" diameter (206 mm x 175 mm)	Alexa app	The Amazon Alexa app is compatible with Fire OS, Android, and iOS devices. A list of supported operating systems can be found here .
Weight	7.7 lb (3.5 kg). Actual size and weight may vary by manufacturing process.	Accessibility features	The Alexa app and Alexa-enabled products include several features for customers with accessibility needs related to vision, hearing, mobility, and speech. Learn more about Alexa accessibility .
Audio	Three 2" (51 mm) midrange speakers, one 1" (25 mm) tweeter, one 5.25" (133 mm) woofer with bass aperture to maximize bass output	Warranty and service	1 year limited warranty and service included . Optional 1-year, 2-year, and 3-year extended warranty available for U.S. customers sold separately. Use of Echo Studio is subject to the terms found here .
Amplifier	Peak output 330W; 24-bit DAC; 100 kHz bandwidth	Setup technology	Amazon Wi-Fi simple setup enables customers to connect smart devices to their Wi-Fi network in a few easy steps. Wi-Fi simple setup is another way Alexa is always getting smarter. Learn more about set up technology .
Supported audio formats	FLAC, MP3, AAC, Opus, Vorbis, Dolby Digital, Dolby Digital Plus, Dolby Atmos, Sony 360 Reality Audio/MPEG-H; includes support for CD Quality (16-bit) and Hi-Res (up to 24-bit)	Included in the box	Echo Studio, power cable, Quick Start Guide
Supported music streaming services	Amazon Music (Standard and HD), Apple Music, Spotify, Tidal, Deezer, Pandora, SiriusXM, iHeartRadio, TuneIn	Privacy Features	Wake word technology, streaming indicators, microphone off button, the ability to view and delete your voice recordings, and more. Visit the Alexa Privacy Hub to explore how Alexa and Echo devices are designed to protect your privacy.
Automatic room adaptation	Analyzes the acoustics of the room and continuously adjusts audio filters during music playback to optimize sound output regardless of placement (requires device is not muted).	Language	Alexa speaks English and Spanish.
Audio input	Combination 3.5 mm mini-optical Toslink	Software Security Updates	This device receives guaranteed software security updates until at least four years after the device is last available for purchase as a new unit on our websites. Learn more about these software security updates . If you
Fire TV compatibility	Connects wirelessly as the audio output for Fire TV Cube (1st Gen and 2nd Gen), Fire TV Stick 4K and Fire TV (3rd Gen). Set up audio system using the Alexa app. Learn more about compatibility .		
Wi-Fi	Dual-band Wi-Fi supports 802.11 a/b/g/n/ac (2.4 and 5 GHz) networks.		

connectivity	Does not support connecting to ad-hoc (or peer-to-peer) Wi-Fi networks.
Zigbee connectivity	Built-in Zigbee smart home hub supports Zigbee light bulbs, locks, sensors, plugs, and in-wall switches.
Bluetooth connectivity	Advanced Audio Distribution Profile (A2DP) support for audio streaming from your mobile device to Echo or from Echo to your Bluetooth speaker. Audio/Video Remote Control Profile (AVRCP) for voice control of connected mobile devices. Hands-free voice control is not supported for Mac OS X devices. Bluetooth speakers requiring PIN codes are not supported.

already own an Amazon Echo, visit [Manage Your Content and Devices](#) for information specific to your device.

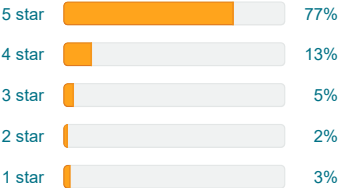
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Customer reviews

★★★★☆ 4.6 out of 5

29,101 global ratings



How are ratings calculated?

Reviews with images



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Top reviews

Top reviews from the United States

Steve Pugliese
★★★★★ **These must be paired in stereo!**
Reviewed in the United States on November 11, 2019
Configuration: Echo Studio | **Verified Purchase**

There will be plenty of reviews for the Studio in stand alone, single speaker use. It does sound excellent that way. But if you pair two Studios and throw in the Echo Sub, that is an extraordinary composition! That is the way to do the Echo Studio! That is how I'll review it here.

I decided I must pair two Studios since I had two Echo Plus's stereo paired with an Echo Sub and it sounded pretty darn good. So I had to try the Studio paired in stereo, and since I had the Sub, I threw that in too. What else am I going to do with it? The Sub added a lot to the two Plus's. I wondered would you even notice it with the two Studios? I'm here to say that you definitely notice it. You notice it's not there, I can tell you.

The sound of this whole system (two Echo Studios and the Echo Sub) is quite exceptional. I would have to say it's thrilling! Yes, it costs \$530 but that is bound to come down and did I tell you that it sounds incredible? It commands a respect, it really does. There is such a depth to this. The bass is deliberate and authoritative. Very punchy. It has exceptional dynamic range (at high volumes this can be startling) and the stereo image is just stunning. An enormous stage. Those 6 midrange speakers sound sweet indeed. Be sure to turn

[Read more](#)

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A. Meller
★★★★☆ **Not "Studio" sound quality**
Reviewed in the United States on November 11, 2019
Configuration: Echo Studio | **Verified Purchase**

Disclaimer: this is not my first Echo device - I have altogether 5 of them at the moment, and have used them for at least 3 years.

Unlike other reviewer who criticized this gadget, I had no problems with setting it up and with using it. It works fine, plays music and answers questions. I am just unhappy with the sound, that was, of course, the primary reason to upgrade from Echo Plus to this device.

The good:

a. Bass is better that on my Echo Plus.

The bad:

a. Trebles are very bad and muddy. Rudimentary equalizer settings (Bass, Midrange, Treble) are not sufficient to adjust the sound properly. I believe the problem is mostly due to phase cancellation effect on a single tweeter that mixes signal from left and right channels. Amazon developers, please consider either adding
✓ [Read more](#)

1,195 people found this helpful

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Harry Sachs

★☆☆☆☆ **Each devices have become so riddled with problems I can't recommend.**

Reviewed in the United States on November 11, 2019

Configuration: Echo Studio | [Verified Purchase](#)

After installing the update (that took an hour) it still won't consistently play music. I don't know if this device is ready for primetime as this seems like a common issue.

I was very excited for this one as I use my original echo daily to listen to the radio or music. Little difference between this device and the original when it comes to listening to talk radio like NPR or news streaming. The music that it did play sounded better than the original echo (much of the difference was an increase of bass). It sounded good when it played music.

I have returned it because of the inconsistency and lack of functionality. I opted to not get a replacement though because I have my echo spot hooked up to a Boston Acoustics speaker that sounds as good and it's cheaper than the \$200 For this speaker.

Having used this "studio" version, I would recommend hooking up your old Alexa to a quality speaker instead of spending the money on this one. I find this to be a much more versatile option. Plus this thing is huge and
✓ [Read more](#)

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Amazon Music's Free Tier Is More Advertising Play Than Spotify Killer, Analysts Say

By Jem Aswad ▼



Richard Vogel/AP/REX/Shutterstock

When news began to spread last week that [Amazon Music's long-anticipated free streaming tier](#) was imminent, headlines emerged about its threat to [Spotify](#) and Apple Music, with some stories saying that Spotify's stock price dropped in response to the news.

But not only was today's launch of the free tier basically a soft one — for the moment, it's a limited service, only available to U.S. customers of its Alexa voice assistant, and when the listener requests a song, it leads to an [Amazon](#) playlist or station, rather than an album — analysts say that it's more of a bigger play by the company to boost its advertising income and sales of its Echo speakers, and less of an attempt to wrest customers and market share from Spotify and Apple Music.

"I don't see this changing anything major in the music ecosystem," says analyst Russ Crupnick of MusicWatch. "It will probably have little impact on the established players — Spotify has incredible loyalty with its listeners and I

don't see people marching off to Amazon because it's going to have a free tier. Amazon has a much more casual audience — it's large, but they spend much fewer hours [on the platform] and are generally less engaged with music.

“However,” he notes, “it may bite into Spotify’s advertising, if not its audience. This clearly fits in with Amazon’s larger advertising plan: It’s not hard to imagine, after a consumer asks Alexa to play a song, the voice then saying, ‘After you’re done listening to the song, check out this product, available now on Amazon...’”

That observation was doubled down by Mark Mulligan of Midia Research, who published an [extensive analysis of Amazon’s advertising play yesterday called “Amazon’s Ad-Supported Strategy Goes Way Beyond Music.”](#)

“Amazon is in the process of building new, large-scale digital properties as a platform for its advertising business, which is growing faster than any of the other tech majors’ and is already a fifth of the size of Facebook’s entire ad business,” he tells *Variety*, noting that Amazon’s true target in this space is Facebook.

However, Mulligan adds, “Spotify should be worried, not just because Amazon has already proven itself a more-than-able competitor in subscriptions but also because it has the ad sales infrastructure that Spotify does not. A free music audience without effective ad sales is just a cost to the business; a free music audience with a well-oiled ad sales machine on top of it is a cash cow.”

And another angle, of course, is aimed at benefitting Amazon itself and its Echo speakers.

“Amazon’s go-to strategy has been to use media incentives to get consumers to purchase more of its core product offerings,” says pricing strategy consultant Rafi Mohammed. “Prime video is a great example — an add-on to coax customers to purchase Prime, with the ultimate purpose of getting them to buy more goods with free 2-day delivery.

“Amazon is deploying the same game plan with its Echo speakers,” he continues. “It’ll offer ‘free’ media — in this case, an ad-supported restricted music library — in an effort to beef up the value of its Echo speakers. The desired side-effect is to hook buyers on Alexa, which in turn boosts sales of Amazon’s core products by encouraging voice ordering. Amazon’s free music tier, initially anyway, is a less-attractive offering compared to Spotify’s ad-supported service.

“Amazon’s free music tier may dampen [other streaming services’] future growth a bit,” he concludes, “but it won’t be a game-changer.” Yet like most everything that Amazon does, it offers formidable prospects for the company’s growth.

Read More About:

Amazon, Spotify

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HEARD ON THE STREET

Amazon's Hardware Is the Ultimate Black Box

Financial details of growing device lineup have never been reported, but the payoff to Amazon is likely significant



Amazon's Astro Robot is being sold on an invitation-only basis under a program that lets out early versions of new products to select buyers.

PHOTO: -/AGENCE FRANCE-PRESSE/GETTY IMAGES

By [Dan Gallagher](#)

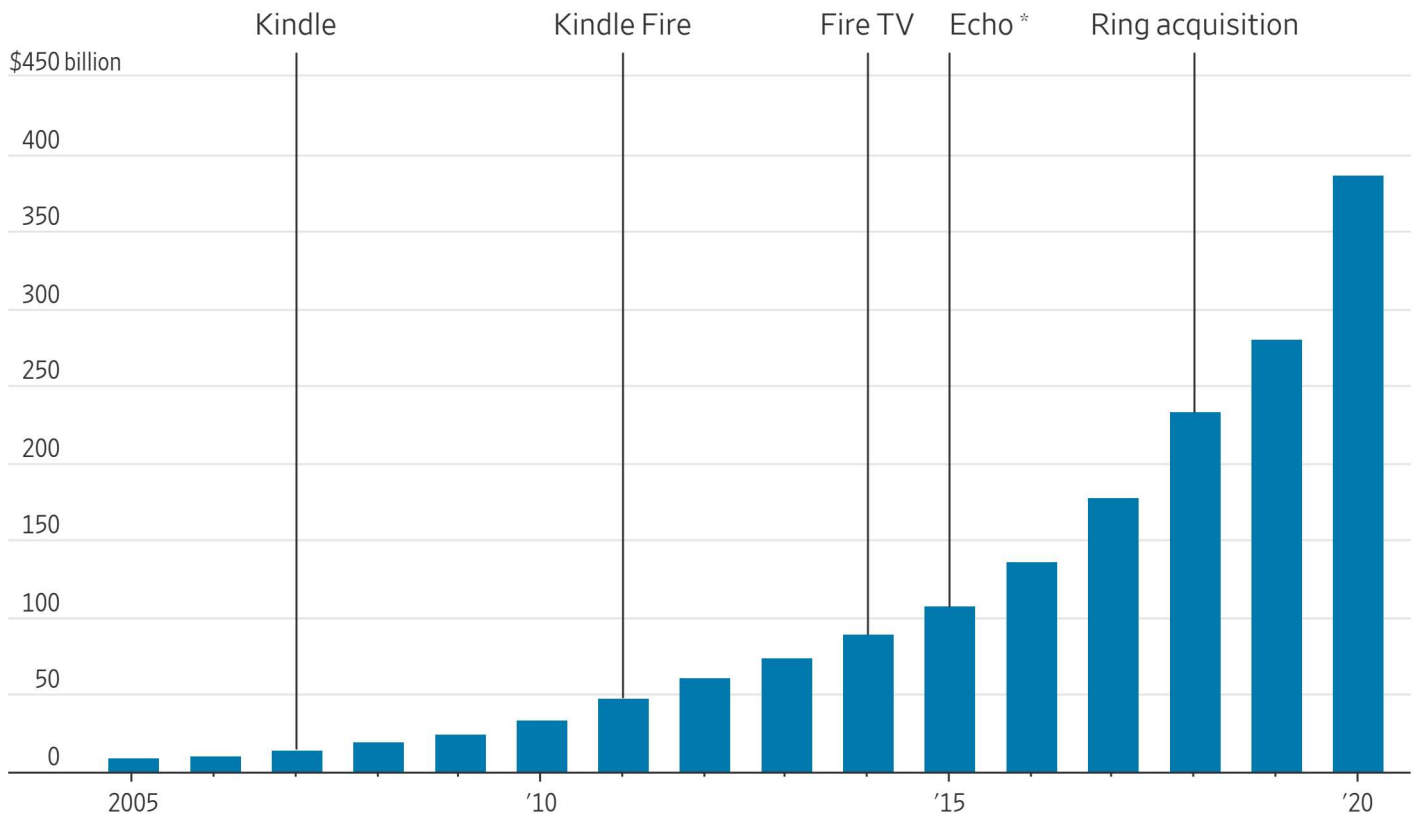
Oct. 1, 2021 7:03 am ET

Amazon. [AMZN 0.98%](#) ▲ com's hardware ambitions grow bigger—and stranger—by the year. But there has long been a method to the company's madness, even if investors are hard pressed to quantify it.

The e-commerce giant has been expanding its own product lineup over the past few weeks. Amazon announced its first branded TV sets in early September, ranging in price from \$370 to more than \$1,000. Last week brought updates to Amazon's Kindle Paperwhite e-readers. And earlier this week, the company introduced 10 new products ranging from its first smart thermostat to its first home robot. Amazon also finally announced launch plans for a small drone called the Ring Always Home Cam designed to fly around the home as a security monitor; that device was first announced last year but never went on sale.

Hooked Up

Amazon's annual revenue, with key device launches



* Echo had a limited launch in 2014

Source: the company

The latter two qualify as headline-grabbing gizmos unlikely to generate much in the way of sales volumes. The robot alone costs \$1,000 and was demoed mostly as a rolling videophone used to keep tabs on aging parents. Indeed, both the Astro Robot and drone are being sold on an invitation-only basis as so-called Day 1 Editions—an Amazon program that lets out early versions of new products to a select group of buyers.

David Limp, Amazon's head of devices and services, told Wired magazine that the company is hoping customers provide more “unique use cases” for the robot.

But Amazon's hardware efforts shouldn't be underestimated on the basis of its more oddball attempts—or even known flops such as the Fire Phone. Starting with the first Kindle e-reader in late 2007, Amazon has racked up some significant hits that either have pioneered new market segments or taken a strong position in existing ones. The company's Echo lineup sells more than 35 million devices annually and has led the smart-speaker market with 30% share over each of the last two years, according to Canalsys.

Amazon's Fire TV has long ranked second only to Roku among streaming TV devices in North America, according to data from Parks Associates.

It remains to be seen if any of the company's latest gadgets will hit those levels, though the success of Fire TV lays a strong foundation for the new TV sets that begin shipping later this month. But while Amazon's hardware business may be the biggest of big tech companies not named Apple, investors are still mostly in the dark about its impact on the overall company. Amazon has steadfastly refused to quantify the business, and few if any Wall Street analysts have attempted to either. It likely accounts for only a small part of Amazon's \$443 billion of revenue over the last four quarters. But even Microsoft reports sales data for its Surface devices, which account for less than 4% of the software giant's total annual revenue.

Of course, the financial impact of Amazon's devices go well beyond their initial sales. The Kindle virtually created the ebook business that now generates more than \$1 billion a year in U.S. sales alone, according to the Association of American Publishers. And the Echo speakers have helped make Amazon a player in music streaming; a survey by Evercore ISI earlier this year found Amazon Music was the second-most popular paid streaming service after Spotify.

Mr. Limp said Tuesday that Amazon's goal has been to build devices "that are deeply integrated with services." Subscription services are generating about \$29 billion a year in revenue for Amazon now, and Wall Street expects that to hit near \$40 billion by the end of next year. That is even without a robot roaming around your house.

Write to Dan Gallagher at dan.gallagher@wsj.com

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RANK	PICK	MADE BY	RETURN
754	<u>Deliveroo PLC</u> (sell)	Ryan	25%
1083	<u>Warner Music Group Corp.</u> (buy)	Gallagher	18%
1160	<u>Trupanion Inc.</u> (sell)	Sindreu	17%
1523	<u>Robinhood Markets Inc.</u> (sell)	Demos	14%
1736	<u>Pinterest Inc.</u> (sell)	Forman	13%

As of Oct. 5, 2021, at 4:05 p.m. ET

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AMAZON.COM ANNOUNCES FOURTH QUARTER SALES UP 21% TO \$87.4 BILLION

SEATTLE—(BUSINESS WIRE) January 30, 2020—Amazon.com, Inc. (NASDAQ: AMZN) today announced financial results for its fourth quarter ended December 31, 2019.

Operating cash flow increased 25% to \$38.5 billion for the trailing twelve months, compared with \$30.7 billion for the trailing twelve months ended December 31, 2018. Free cash flow increased to \$25.8 billion for the trailing twelve months, compared with \$19.4 billion for the trailing twelve months ended December 31, 2018. Free cash flow less principal repayments of finance leases and financing obligations increased to \$16.2 billion for the trailing twelve months, compared with \$11.6 billion for the trailing twelve months ended December 31, 2018. Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations increased to \$12.5 billion for the trailing twelve months, compared with \$8.4 billion for the trailing twelve months ended December 31, 2018.

Common shares outstanding plus shares underlying stock-based awards totaled 512 million on December 31, 2019, compared with 507 million one year ago.

Fourth Quarter 2019

Net sales increased 21% to \$87.4 billion in the fourth quarter, compared with \$72.4 billion in fourth quarter 2018. Excluding the \$120 million unfavorable impact from year-over-year changes in foreign exchange rates throughout the quarter, net sales increased 21% compared with fourth quarter 2018.

Operating income increased to \$3.9 billion in the fourth quarter, compared with operating income of \$3.8 billion in fourth quarter 2018.

Net income increased to \$3.3 billion in the fourth quarter, or \$6.47 per diluted share, compared with net income of \$3.0 billion, or \$6.04 per diluted share, in fourth quarter 2018.

Full Year 2019

Net sales increased 20% to \$280.5 billion, compared with \$232.9 billion in 2018. Excluding the \$2.6 billion unfavorable impact from year-over-year changes in foreign exchange rates throughout the year, net sales increased 22% compared with 2018.

Operating income increased to \$14.5 billion, compared with operating income of \$12.4 billion in 2018.

Net income increased to \$11.6 billion, or \$23.01 per diluted share, compared with net income of \$10.1 billion, or \$20.14 per diluted share, in 2018.

“Prime membership continues to get better for customers year after year. And customers are responding — more people joined Prime this quarter than ever before, and we now have over 150 million paid Prime members around the world,” said Jeff Bezos, Amazon founder and CEO. “We’ve made Prime delivery faster — the number of items delivered to U.S. customers with Prime’s free one-day and same-day delivery more than quadrupled this quarter compared to last year. Members now have free two-hour grocery delivery from Amazon Fresh and Whole Foods Market in more than 2,000 U.S. cities and towns. Prime members watched double the hours of original movies and TV shows on Prime Video this quarter compared to last year, and Amazon Originals received a record 88 nominations and 26 wins at major awards shows. A huge thank you to teams across Amazon for their dedicated work to build, innovate, and deliver for customers this holiday.”

Highlights

- During this holiday season, customers ordered billions of items worldwide, including tens of millions of Amazon devices. Best-selling devices this holiday were Echo Dot, Fire TV Stick 4K with Alexa Voice Remote, and Echo Show 5.

- Amazon announced that delivery through Amazon Fresh, which was previously \$14.99 a month, is now a free benefit for Prime members. Members in more than 2,000 U.S. cities and towns can access free two-hour grocery delivery from Amazon Fresh and Whole Foods Market. Grocery delivery orders from Amazon Fresh and Whole Foods Market more than doubled in the fourth quarter year-over-year.
- Amazon announced Alexa integrations with new automotive brands at CES 2020. Fiat Chrysler Automobiles is adding Alexa to the newest version of its infotainment system for cars, Uconnect 5.0, Lamborghini is adding Alexa to its Huracan Evo range, and Rivian is integrating Alexa into its electric vehicle lineup, including its upcoming fleet of 100,000 all-electric Amazon delivery vans.
- Alexa continues to get smarter and make customers' lives easier with new features, including medication reminders and voice refills, BuzzFeed Tasty recipe videos, the ability to pay utility bills, and purchase fuel at more than 11,500 Exxon and Mobil stations. Customers can also enjoy even more entertainment options for Alexa including content from Spotify Free, Spotify Podcasts, Apple Podcasts, SiriusXM's On Demand library, and Tubi TV. Additionally customers can say "Alexa, why did you do that?" to hear short explanations about her response.
- Amazon announced additional companies joined the Voice Interoperability Initiative, a program to ensure voice-enabled products provide customers with choice and flexibility through multiple, interoperable voice services. New participants include automakers such as Audi and Volkswagen; brands such as Acer, BBC, Hisense, TIM, TiVo, and Vestel; and technology brands Aspinity, Syntiant, and Vesper.
- Amazon announced there are now hundreds of millions of Alexa-enabled devices in customers' hands and customers interact with Alexa billions of times each week. Customers rely on Alexa to control smart home devices hundreds of millions of times each week, and can enjoy new features including the ability to pause or resume Wi-Fi access in their home using voice.
- Fire TV now has more than 40 million active users worldwide. Amazon announced the new Fire TV Edition at CES 2020, which includes a set of tools, features, and services that make it even easier for developers, operators, device makers, and manufacturers to integrate Fire TV into their products. BMW and Fiat Chrysler Automobiles are among the first automakers to introduce Fire TV in their future vehicles.
- Fire TV announced the expansion of Fire TV Edition Smart TVs in India with Onida, adding to the growing list of Fire TV Edition Smart TVs and soundbars from brands like Toshiba, Insignia, and Grundig. Fire TV added more content for customers, including apps from Disney+, Apple TV, and Peloton.
- Amazon released several new products and services designed for kids, including the all-new Fire HD 10 Kids Edition, Kindle Kids Edition, Echo Glow, and expansion of FreeTime on Alexa to Echo Show devices — enabling kids to watch age-appropriate videos, make video calls with approved family and friends, take photos and add stickers, and more.
- Ring announced several new products and features, including additions to its smart lighting lineup and the all-new Control Center, a new, easy-to-use dashboard where customers can view and control privacy and security settings. Ring also launched Ring Alarm in the U.K., as well as the all-new Indoor Cam and Stick Up Cam in several countries such as Canada, Australia, New Zealand, the U.K., France, Germany, Italy, and Spain.
- Amazon Original series *Hunters* will premiere on Prime Video on February 21st. Produced by Academy Award-winner Jordan Peele and starring Academy Award-winner Al Pacino, *Hunters* follows a diverse band of Nazi hunters living in 1977 New York City. Prime Video debuted several Original series and movies last quarter including *The Report*, *The Aeronauts*, *The Kacey Musgraves Christmas Special*, *The Expanse*, as well as the return of *The Marvelous Mrs. Maisel*, *Tom Clancy's Jack Ryan*, and the final season of *The Man in the High Castle*.
- Prime Video received eight Golden Globe Award nominations, with *Fleabag* winning Best Television Series, Musical or Comedy, as well as Best Performance by an Actress in a Television Series, Musical or Comedy, for Phoebe Waller-Bridge.
- Amazon Music has more than 55 million customers worldwide. Collectively, in the U.S., U.K., Germany, and Japan, Amazon Music customers have grown nearly 50% year-over-year; and in newer marketplaces France, Italy, Spain, and Mexico, Amazon Music customers more than doubled in 2019. Additionally, Amazon Music Unlimited subscribers grew more than 50% in 2019.
- Amazon announced that free returns can now be made at more than 18,000 drop-off locations in the U.S., including Amazon Books and Amazon 4-star stores, Amazon Hub locations, Kohl's, select Whole Foods Market stores, UPS, and more. In support of Amazon's commitment to sustainability, more than 5,800 locations now offer label-free and box-free returns, limiting the amount of packaging used.
- Since launching Prime in September, Brazil has seen the fastest growth in paid Prime members in Amazon's history. Selection on amazon.com.br continues to expand and now includes millions of items, and in December the country opened its fourth fulfillment center to support growth. Additionally, Prime Video announced four new original productions for 2020, and will debut *All or Nothing: Brazil National Football Team* on January 31st.
- Amazon pledged to invest \$1 billion to help digitize traders and micro, small, and medium-sized businesses (MSMBs) across India, with the goal of bringing more than 10 million MSMBs online by 2025. Today, there are more than

550,000 sellers on the Amazon India marketplace, more than 60,000 Indian manufacturers and brands are exporting their “Make in India” products to customers worldwide on Amazon, and we expect our new \$1 billion investment to enable \$10 billion in cumulative Indian exports by 2025.

- Since launching amazon.in in 2013, Amazon has created more than 700,000 direct and indirect jobs in India. In January, Amazon announced plans to create an additional one million jobs in India by 2025, with continued investments in technology, infrastructure, and logistics. Since 2014, Amazon has grown its employee base more than four times, and last year inaugurated its new campus building in Hyderabad — Amazon’s first fully-owned campus outside the United States and the largest building globally in terms of employees and space.
- Amazon India announced it will have 10,000 electric vehicles in its delivery fleet by 2025. This investment is part of Amazon’s recent co-founding of The Climate Pledge, a commitment to meet the Paris Agreement 10 years early by achieving net zero carbon emissions by 2040.
- Amazon Business launched in Canada and now serves commercial and public sector organizations of all sizes in Canada and eight other countries, including the U.S., U.K., Germany, France, Italy, Spain, Japan, and India. Amazon Business also launched Business Prime in Canada. Business Prime offers member-only benefits to help save time and money, in addition to unlimited fast, free shipping on eligible items for every member on the account.
- Amazon Fashion produced its first holiday catalog featuring influencers Louise Roe, Ayana Iman Gibbs, Tylynn Nguyen, and their families in our favorite holiday looks. Additionally, Amazon Fashion and Amazon Home partnered with Refinery29 to open a holiday pop-up shop in New York City showcasing selection for the whole family.
- Amazon Fashion continues to increase its assortment with the introduction of new brands, such as Tissot, Swatch, and Vineyard Vines, as well as the expansion of the Amazon brand, Goodthreads, which now offers women’s styles.
- In 2019, authors earned more than \$300 million from the Kindle Direct Publishing (KDP) Select Global Fund, totaling more than \$1.1 billion since the launch of Kindle Unlimited. Millions of independent authors have self-published millions of books through KDP since launching the service in 2007. Additionally, thousands of independent authors earned more than \$50,000, with more than a thousand surpassing \$100,000 in royalties in 2019 through KDP.
- Independent third-party sellers — mostly small and medium-sized businesses — sold more than a billion items during the holiday season, including more than 100 million items shipped with Prime Free One-Day Delivery. Amazon also announced nine winners of the Small Business Spotlight Awards in the U.K., Germany, and the U.S., including Small Business of the Year winners Gamely Games in the U.K., Snocks in Germany, and nutpods in the U.S.
- Amazon was recognized by the Drucker Institute as the #1 Best-Managed Company of 2019, based on a study that measures corporate performance across customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength. Amazon received a perfect score on the Human Rights Campaign’s 2020 Corporate Equality Index and the designation of being a “Best Place to Work for LGBTQ Equality.” Employers earning top ratings took steps to ensure greater equity for lesbian, gay, bisexual, transgender, and queer (LGBTQ) workers and their families in the form of comprehensive policies, benefits, and practices.
- Amazon announced six new renewable energy projects across the U.S. and Europe that will support Amazon’s commitment to The Climate Pledge to be net zero carbon by 2040 and supply renewable energy for the company’s fulfillment network and Amazon Web Services (AWS) data centers. To date, Amazon has launched over 70 renewable energy projects that will provide over 1,900 MW of renewable capacity and are projected to deliver more than 5.3 million MWh of renewable energy annually.
- This holiday season, Amazon surprised hundreds of charities across the U.S. by donating hundreds of thousands of items from their AmazonSmile Charity Lists, including more than 5,000 blankets, sheets, and pillows; more than 30,000 toys and educational items for kids; more than 40,000 apparel items; and more than 60,000 pantry items.
- AWS announced several significant new customer commitments and migrations during the quarter spanning major industries, including finance with Western Union, FINRA CAT, LLC, a subsidiary of FINRA (Financial Industry Regulatory Authority), and Klarna, a leading global payments provider and bank; media with Fox Corporation, and ProSiebenSat.1 Media SE, Europe’s leading satellite and cable broadcaster; sports with a new player health and safety initiative with the NFL, the Seattle Seahawks, Bundesliga, Germany’s premier football league, and Formula One Group; energy with BP; pharmaceuticals with Novartis; and hospitality with Best Western Hotels & Resorts, among others.
- AWS announced three Arm-based instances (M6g, C6g, R6g) powered by AWS’s new Graviton2 processors, that deliver up to 40% better price and performance than current x86 processor-based instances. These new Arm-based instances are powered by the AWS Nitro System, a combination of dedicated hardware and lightweight hypervisor, enabling faster innovation and enhanced security for customers at a much lower cost.
- AWS announced the general availability of AWS Outposts, a fully-managed service that extends AWS infrastructure and services to virtually any data center, co-location space, or on-premises facility. AWS Outposts offers customers the same AWS hardware infrastructure, services, APIs, and tools to build and run applications on premises and in the cloud for a truly consistent hybrid experience. AWS compute, storage, database, and other services run locally on

Outposts, and customers can access the full range of AWS services available in the region to build, manage, and scale on-premises applications using familiar AWS services and tools.

- AWS announced AWS Local Zones, a new type of AWS infrastructure deployment that places AWS compute, storage, database, and other select services closer to large population, industry, and IT centers where no AWS Region exists today. With the opening of the first AWS Local Zone in Los Angeles (LA), developers will have the ability to deploy applications that require single-digit millisecond latencies to end-users also in LA. AWS Local Zone customers will be able to use their compute, storage, database, and other select services locally in LA, while also being able to seamlessly connect back to the rest of their workloads running in the AWS U.S. West (Oregon) Region or other AWS Regions a customer may be using.
- AWS announced AWS Wavelength, which enables developers to build applications that deliver single-digit millisecond latencies to mobile devices and users by deploying AWS compute and storage at the edge of the 5G network. With AWS Wavelength, developers can serve use cases that require ultra-low latency like machine learning inference at the edge, autonomous industrial equipment, smart cars and cities, Internet of Things (IoT), and Augmented and Virtual Reality. AWS is partnering with Verizon on making AWS Wavelength available across the U.S., and is collaborating with other leading telecommunications companies, including Vodafone and SK Telecom, to launch AWS Wavelength across Europe and South Korea in 2020, with more global partners coming soon.
- AWS announced six new capabilities for Amazon SageMaker, a fully-managed service that removes the heavy lifting from each step of the machine learning process. Amazon SageMaker Studio is the first fully integrated development environment for machine learning that makes it easier for developers to build, debug, train, deploy, monitor, and operate custom machine learning models; Amazon SageMaker Notebooks allows developers to spin up elastic machine learning notebooks in seconds, and automates the process of sharing notebooks with a single-click; Amazon SageMaker Experiments helps developers visualize and compare machine learning model iterations, training parameters, and outcomes; Amazon SageMaker Autopilot allows developers to submit simple data in CSV files and have machine learning models automatically generated, with full visibility to how the models are created so developers can evolve them over time; Amazon SageMaker Debugger provides real-time monitoring for machine learning models to improve predictive accuracy, reduce training times, and facilitate greater explainability; and Amazon SageMaker Model Monitor detects concept drift to discover when the performance of a model running in production begins to deviate from the original trained model.
- AWS announced five new artificial intelligence (AI) services designed to put machine learning in the hands of more developers — with no machine learning experience required. Amazon Kendra reinvents enterprise search by using natural language processing and other machine learning techniques to unite multiple data silos inside an enterprise and consistently provide high-quality results to common queries instead of a random list of links in response to keyword queries; Amazon CodeGuru helps software developers automate code reviews and identify an application's most expensive lines of code; Amazon Fraud Detector helps businesses identify online identity and payment fraud in real time, based on the same technology developed for Amazon.com; Amazon Transcribe Medical offers healthcare providers highly accurate, real-time speech-to-text transcription so they can focus on patient care; and Amazon Augmented Artificial Intelligence (A2I) helps developers validate machine learning predictions through human confirmation.
- AWS announced a set of machine learning-powered analytics capabilities for Amazon Connect called Contact Lens, which make it easier for businesses to identify customer issues and trends, search call and chat transcripts, and improve agent performance. Amazon Connect offers customers a fully-managed cloud contact center service. Now with Contact Lens, Amazon Connect customers have the ability to understand the sentiment, trends, and compliance of their own customer conversations to improve the experience and identify crucial feedback, with no machine learning experience required.
- AWS announced significant new analytics capabilities in Redshift that provide an order of magnitude better query performance, deliver greater flexibility, and help customers embrace data at scale. Amazon Redshift RA3 instances allow customers to optimize their data warehouse by scaling and paying for compute and storage independently, so they can choose the number of instances they need based on their data warehousing workload's performance requirements, and only pay for the managed storage that they use; AQUA (Advanced Query Accelerator) for Amazon Redshift is a new distributed and hardware-accelerated cache that brings compute to the storage layer, so data doesn't have to move back and forth between the two, giving customers up to 10x better query performance than other cloud data warehouse provider; Amazon Redshift Data Lake Export allows customers to export data directly from Amazon Redshift to Amazon S3 in an open data format optimized for analytics; and Amazon Redshift Federated Query lets customers analyze data across their Amazon Redshift data warehouse, Amazon Simple Storage Service (S3) Data Lake, and Amazon RDS and Aurora databases.
- AWS announced a new innovative highly-scalable, cost-saving warm storage tier for Amazon Elasticsearch Service called UltraWarm that makes it easier for customers to retain any amount of current and historical log data at up to

one-tenth the current cost and is 80% less than the cost of warm-tier storage from other managed Elasticsearch offerings.

- AWS announced Amazon Managed (Apache) Cassandra Service, a scalable, highly available, and fully-managed database service that supports Cassandra workloads. Developers can use the same Cassandra application code, Apache 2.0 licensed drivers, and tools as they do today to run, manage, and scale workloads on Amazon Managed Cassandra Service without having to worry about managing the underlying infrastructure. And, because it's serverless, it also removes the need to provision, configure, and operate large Cassandra clusters, manually add or remove nodes, and rebalance partitions as traffic scales up or down.
- AWS announced three new services and capabilities that make it easier for customers to build and operate securely. Amazon Detective analyzes trillions of data points, using machine learning, statistical analysis, and graph theory to make it easier to visualize and conduct faster and more efficient security investigations; AWS IAM Access Analyzer makes it simple for security teams and administrators to audit resource policies for unintended access by analyzing hundreds or even thousands of policies across a customer's environment in seconds, and delivering detailed findings about resources that are accessible from outside the account; and AWS Nitro Enclaves is a new Amazon EC2 capability that makes it easy for customers in healthcare, financial services, energy, media and entertainment, and other data-intensive industries to process highly sensitive data, like personally identifiable information and intellectual property on their compute instances, particularly from internal threats within their own accounts.
- AWS announced that customers can start using AWS Fargate for Amazon Elastic Kubernetes Service (EKS), making it easier for customers to run Kubernetes applications on AWS. AWS Fargate, which provides serverless computing for containers, has substantially changed the way developers manage and deploy their containers. Launched two years ago to work with Amazon Elastic Container Service (ECS), AWS Fargate has been broadly requested by Kubernetes customers. Now, with AWS Fargate for Amazon EKS, customers can run Kubernetes-based applications on AWS without the need to manage servers and clusters.
- AWS announced three key initiatives as a part of its plans to help advance quantum computing technologies. Amazon Braket is a new, fully-managed AWS service that enables scientists, researchers, and developers to begin experimenting with computers from quantum hardware providers (including D-Wave, IonQ, and Rigetti) in a single place; AWS Center for Quantum Computing will bring together quantum computing experts from Amazon, the California Institute of Technology (Caltech), and other top academic research institutions to collaborate on the research and development of new quantum computing technologies; and the Amazon Quantum Solutions Lab connects customers with quantum computing experts from Amazon and its partners to develop internal expertise aimed at identifying practical uses of quantum computing, and accelerating the development of quantum applications with meaningful impact.

Financial Guidance

The following forward-looking statements reflect Amazon.com's expectations as of January 30, 2020, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce, and cloud services, and the various factors detailed below.

First Quarter 2020 Guidance

- Net sales are expected to be between \$69.0 billion and \$73.0 billion, or to grow between 16% and 22% compared with first quarter 2019. This guidance anticipates a favorable impact of approximately 5 basis points from foreign exchange rates.
- Operating income is expected to be between \$3.0 billion and \$4.2 billion, compared with \$4.4 billion in first quarter 2019. This guidance includes approximately \$800 million lower depreciation expense due to an increase in the estimated useful life of our servers beginning on January 1, 2020.
- This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded.

A conference call will be webcast live today at 2:30 p.m. PT/5:30 p.m. ET, and will be available for at least three months at amazon.com/ir. This call will contain forward-looking statements and other material information regarding the Company's financial and operating results.

These forward-looking statements are inherently difficult to predict. Actual results could differ materially for a variety of reasons, including, in addition to the factors discussed above, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products and services sold to customers, the mix of net sales

derived from products as compared with services, the extent to which we owe income or other taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of claims, litigation, government investigations, and other proceedings, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, seasonality, the degree to which the Company enters into, maintains, and develops commercial agreements, proposed and completed acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. Other risks and uncertainties include, among others, risks related to new products, services, and technologies, system interruptions, government regulation and taxation, and fraud. In addition, the global economic climate amplifies many of these risks. More information about factors that potentially could affect Amazon.com's financial results is included in Amazon.com's filings with the Securities and Exchange Commission ("SEC"), including its most recent Annual Report on Form 10-K and subsequent filings.

Our investor relations website is amazon.com/ir and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the SEC, corporate governance information (including our Code of Business Conduct and Ethics), and select press releases, which may contain material information about us, and you may subscribe to be notified of new information posted to this site.

About Amazon

Amazon is guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. Customer reviews, 1-Click shopping, personalized recommendations, Prime, Fulfillment by Amazon, AWS, Kindle Direct Publishing, Kindle, Fire tablets, Fire TV, Amazon Echo, and Alexa are some of the products and services pioneered by Amazon. For more information, visit amazon.com/about and follow @AmazonNews.

AMAZON.COM, INC.
Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2019	2018	2019
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	\$ 21,032	\$ 23,554	\$ 21,856	\$ 32,173
OPERATING ACTIVITIES:				
Net income	3,027	3,268	10,073	11,588
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization of property and equipment and capitalized content costs, operating lease assets, and other	4,262	6,170	15,341	21,789
Stock-based compensation	1,417	1,840	5,418	6,864
Other operating expense (income), net	72	50	274	164
Other expense (income), net	197	(494)	219	(249)
Deferred income taxes	173	185	441	796
Changes in operating assets and liabilities:				
Inventories	(1,350)	(1,516)	(1,314)	(3,278)
Accounts receivable, net and other	(1,395)	(3,906)	(4,615)	(7,681)
Accounts payable	6,882	10,683	3,263	8,193
Accrued expenses and other	2,665	2,894	472	(1,383)
Unearned revenue	528	485	1,151	1,711
Net cash provided by (used in) operating activities	16,478	19,659	30,723	38,514
INVESTING ACTIVITIES:				
Purchases of property and equipment	(3,733)	(5,312)	(13,427)	(16,861)
Proceeds from property and equipment sales and incentives	614	1,371	2,104	4,172
Acquisitions, net of cash acquired, and other	(331)	(777)	(2,186)	(2,461)
Sales and maturities of marketable securities	1,938	7,626	8,240	22,681
Purchases of marketable securities	(2,060)	(6,444)	(7,100)	(31,812)
Net cash provided by (used in) investing activities	(3,572)	(3,536)	(12,369)	(24,281)
FINANCING ACTIVITIES:				
Proceeds from long-term debt and other	406	1,098	768	2,273
Repayments of long-term debt and other	(134)	(1,865)	(668)	(2,684)
Principal repayments of finance leases	(1,906)	(2,780)	(7,449)	(9,628)
Principal repayments of financing obligations	(126)	(24)	(337)	(27)
Net cash provided by (used in) financing activities	(1,760)	(3,571)	(7,686)	(10,066)
Foreign currency effect on cash, cash equivalents, and restricted cash	(5)	304	(351)	70
Net increase (decrease) in cash, cash equivalents, and restricted cash	11,141	12,856	10,317	4,237
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$ 32,173	\$ 36,410	\$ 32,173	\$ 36,410
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest on long-term debt	\$ 121	\$ 155	\$ 854	\$ 875
Cash paid for operating leases	—	941	—	3,361
Cash paid for interest on finance leases	103	166	381	647
Cash paid for interest on financing obligations	53	19	194	39
Cash paid for income taxes, net of refunds	171	188	1,184	881
Assets acquired under operating leases	—	2,476	—	7,870
Property and equipment acquired under finance leases	3,680	4,182	10,615	13,723
Property and equipment acquired under build-to-suit arrangements	1,143	252	3,641	1,362

On January 1, 2019, we adopted accounting guidance amending the accounting for leases, which did not have a material impact on our 2019 operating results. Prior period amounts were not retrospectively adjusted. Under this new guidance, leases we previously referred to as “capital leases” are now referred to as “finance leases.” Leases we previously referred to as “finance leases” are now referred to as “financing obligations.”

AMAZON.COM, INC.
Consolidated Statements of Operations
(in millions, except per share data)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2019	2018	2019
Net product sales	\$ 44,700	\$ 50,542	\$ 141,915	\$ 160,408
Net service sales	27,683	36,895	90,972	120,114
Total net sales	72,383	87,437	232,887	280,522
Operating expenses:				
Cost of sales	44,786	53,977	139,156	165,536
Fulfillment	10,028	12,192	34,027	40,232
Technology and content	7,669	9,740	28,837	35,931
Marketing	4,911	6,172	13,814	18,878
General and administrative	1,117	1,412	4,336	5,203
Other operating expense (income), net	86	65	296	201
Total operating expenses	68,597	83,558	220,466	265,981
Operating income	3,786	3,879	12,421	14,541
Interest income	150	211	440	832
Interest expense	(387)	(455)	(1,417)	(1,600)
Other income (expense), net	(199)	418	(183)	203
Total non-operating income (expense)	(436)	174	(1,160)	(565)
Income before income taxes	3,350	4,053	11,261	13,976
Provision for income taxes	(327)	(786)	(1,197)	(2,374)
Equity-method investment activity, net of tax	4	1	9	(14)
Net income	\$ 3,027	\$ 3,268	\$ 10,073	\$ 11,588
Basic earnings per share	\$ 6.18	\$ 6.58	\$ 20.68	\$ 23.46
Diluted earnings per share	\$ 6.04	\$ 6.47	\$ 20.14	\$ 23.01
Weighted-average shares used in computation of earnings per share:				
Basic	490	496	487	494
Diluted	501	505	500	504

AMAZON.COM, INC.
Consolidated Statements of Comprehensive Income
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2019	2018	2019
Net income	\$ 3,027	\$ 3,268	\$ 10,073	\$ 11,588
Other comprehensive income (loss):				
Net change in foreign currency translation adjustments:				
Foreign currency translation adjustments, net of tax of \$(13), \$1, \$6, and \$(5)	(25)	447	(538)	78
Reclassification adjustment for foreign currency translation included in "Other operating expense (income), net," net of tax of \$0, \$0, \$0, and \$29	—	—	—	(108)
Net foreign currency translation adjustments	(25)	447	(538)	(30)
Net change in unrealized gains (losses) on available-for-sale debt securities:				
Unrealized gains (losses), net of tax of \$0, \$1, \$0, and \$(12)	5	(2)	(17)	83
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$0, \$0, \$0, and \$0	2	(2)	8	(4)
Net unrealized gains (losses) on available-for-sale debt securities	7	(4)	(9)	79
Total other comprehensive income (loss)	(18)	443	(547)	49
Comprehensive income	\$ 3,009	\$ 3,711	\$ 9,526	\$ 11,637

AMAZON.COM, INC.
Segment Information
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2019	2018	2019
North America				
Net sales	\$ 44,124	\$ 53,670	\$ 141,366	\$ 170,773
Operating expenses	41,873	51,770	134,099	163,740
Operating income	\$ 2,251	\$ 1,900	\$ 7,267	\$ 7,033
International				
Net sales	\$ 20,829	\$ 23,813	\$ 65,866	\$ 74,723
Operating expenses	21,471	24,430	68,008	76,416
Operating income (loss)	\$ (642)	\$ (617)	\$ (2,142)	\$ (1,693)
AWS				
Net sales	\$ 7,430	\$ 9,954	\$ 25,655	\$ 35,026
Operating expenses	5,253	7,358	18,359	25,825
Operating income	\$ 2,177	\$ 2,596	\$ 7,296	\$ 9,201
Consolidated				
Net sales	\$ 72,383	\$ 87,437	\$ 232,887	\$ 280,522
Operating expenses	68,597	83,558	220,466	265,981
Operating income	3,786	3,879	12,421	14,541
Total non-operating income (expense)	(436)	174	(1,160)	(565)
Provision for income taxes	(327)	(786)	(1,197)	(2,374)
Equity-method investment activity, net of tax	4	1	9	(14)
Net income	\$ 3,027	\$ 3,268	\$ 10,073	\$ 11,588
Segment Highlights:				
Y/Y net sales growth:				
North America	18%	22%	33%	21%
International	15	14	21	13
AWS	45	34	47	37
Consolidated	20	21	31	20
Net sales mix:				
North America	61%	61%	61%	61%
International	29	27	28	27
AWS	10	12	11	12
Consolidated	100%	100%	100%	100%

AMAZON.COM, INC.
Consolidated Balance Sheets
(in millions, except per share data)

	<u>December 31, 2018</u>	<u>December 31, 2019</u>
		(unaudited)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 31,750	\$ 36,092
Marketable securities	9,500	18,929
Inventories	17,174	20,497
Accounts receivable, net and other	16,677	20,816
Total current assets	75,101	96,334
Property and equipment, net	61,797	72,705
Operating leases	—	25,141
Goodwill	14,548	14,754
Other assets	11,202	16,314
Total assets	<u>\$ 162,648</u>	<u>\$ 225,248</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 38,192	\$ 47,183
Accrued expenses and other	23,663	32,439
Unearned revenue	6,536	8,190
Total current liabilities	68,391	87,812
Long-term lease liabilities	9,650	39,791
Long-term debt	23,495	23,414
Other long-term liabilities	17,563	12,171
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, \$0.01 par value:		
Authorized shares — 5,000		
Issued shares — 514 and 521		
Outstanding shares — 491 and 498	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	26,791	33,658
Accumulated other comprehensive income (loss)	(1,035)	(986)
Retained earnings	19,625	31,220
Total stockholders' equity	43,549	62,060
Total liabilities and stockholders' equity	<u>\$ 162,648</u>	<u>\$ 225,248</u>

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except per share data)
(unaudited)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Y/Y % Change
Cash Flows and Shares							
Operating cash flow -- trailing twelve months (TTM)	\$ 26,604	\$ 30,723	\$ 34,360	\$ 36,029	\$ 35,332	\$ 38,514	25 %
Operating cash flow -- TTM Y/Y growth	57%	67%	89%	65%	33 %	25%	N/A
Purchases of property and equipment, net of proceeds from sales and incentives -- TTM	\$ 11,239	\$ 11,323	\$ 11,316	\$ 11,011	\$ 11,868	\$ 12,689	12 %
Principal repayments of finance leases -- TTM (1)	\$ 7,016	\$ 7,449	\$ 7,649	\$ 8,693	\$ 8,754	\$ 9,628	29 %
Principal repayments of financing obligations -- TTM (1)	\$ 277	\$ 337	\$ 266	\$ 211	\$ 129	\$ 27	(92)%
Equipment acquired under finance leases -- TTM (1) (2)	\$ 9,704	\$ 10,615	\$ 10,909	\$ 11,656	\$ 12,580	\$ 12,916	22 %
Principal repayments of all other finance leases -- TTM (1) (3)	\$ —	\$ —	\$ 76	\$ 176	\$ 302	\$ 392	N/A
Free cash flow -- TTM (4)	\$ 15,365	\$ 19,400	\$ 23,044	\$ 25,018	\$ 23,464	\$ 25,825	33 %
Free cash flow less principal repayments of finance leases and financing obligations -- TTM (1) (5)	\$ 8,072	\$ 11,614	\$ 15,129	\$ 16,114	\$ 14,581	\$ 16,170	39 %
Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations -- TTM (1) (6)	\$ 5,384	\$ 8,448	\$ 11,793	\$ 12,975	\$ 10,453	\$ 12,490	48 %
Common shares and stock-based awards outstanding	507	507	507	510	511	512	1 %
Common shares outstanding	489	491	492	494	495	498	1 %
Stock-based awards outstanding	18	16	15	16	16	14	(10)%
Stock-based awards outstanding -- % of common shares outstanding	3.7%	3.2%	3.0%	3.3%	3.2 %	2.9%	N/A
Results of Operations							
Worldwide (WW) net sales	\$ 56,576	\$ 72,383	\$ 59,700	\$ 63,404	\$ 69,981	\$ 87,437	21 %
WW net sales -- Y/Y growth, excluding F/X	30%	21%	19%	21%	25 %	21%	N/A
WW net sales -- TTM	\$ 220,958	\$ 232,887	\$ 241,546	\$ 252,064	\$ 265,469	\$ 280,522	20 %
WW net sales -- TTM Y/Y growth, excluding F/X	35%	30%	26%	23%	22 %	22%	N/A
Operating income	\$ 3,724	\$ 3,786	\$ 4,420	\$ 3,084	\$ 3,157	\$ 3,879	2 %
F/X impact -- favorable (unfavorable)	\$ 90	\$ 123	\$ 84	\$ 58	\$ 22	\$ 16	N/A
Operating income -- Y/Y growth (decline), excluding F/X	948%	72%	125%	1%	(16)%	2%	N/A
Operating margin -- % of WW net sales	6.6%	5.2%	7.4%	4.9%	4.5 %	4.4%	N/A
Operating income -- TTM	\$ 10,762	\$ 12,421	\$ 14,914	\$ 15,014	\$ 14,448	\$ 14,541	17 %
Operating income -- TTM Y/Y growth (decline), excluding F/X	231%	197%	190%	99%	32 %	16%	N/A
Operating margin -- TTM % of WW net sales	4.9%	5.3%	6.2%	6.0%	5.4 %	5.2%	N/A
Net income	\$ 2,883	\$ 3,027	\$ 3,561	\$ 2,625	\$ 2,134	\$ 3,268	8 %
Net income per diluted share	\$ 5.75	\$ 6.04	\$ 7.09	\$ 5.22	\$ 4.23	\$ 6.47	7 %
Net income -- TTM	\$ 8,902	\$ 10,073	\$ 12,005	\$ 12,096	\$ 11,347	\$ 11,588	15 %
Net income per diluted share -- TTM	\$ 17.85	\$ 20.14	\$ 23.96	\$ 24.08	\$ 22.57	\$ 23.01	14 %

- (1) On January 1, 2019, we adopted accounting guidance amending the accounting for leases, which did not have a material impact on our 2019 operating results. Prior period amounts were not retrospectively adjusted. Under this new guidance, leases we previously referred to as “capital leases” are now referred to as “finance leases.” Leases we previously referred to as “finance leases” are now referred to as “financing obligations.”
- (2) For the twelve months ended December 31, 2019, this amount relates to equipment included in “Property and equipment acquired under finance leases” of \$13,723 million. Amounts for periods prior to 2019 have not been retrospectively adjusted.
- (3) For the twelve months ended December 31, 2019, this amount relates to property included in “Principal repayments of finance leases” of \$9,628 million. Amounts for periods prior to 2019 have not been retrospectively adjusted.
- (4) Free cash flow is cash flow from operations reduced by “Purchases of property and equipment, net of proceeds from sales and incentives.”
- (5) Free cash flow less principal repayments of finance leases and financing obligations is free cash flow reduced by “Principal repayments of finance leases” and “Principal repayments of financing obligations.”
- (6) Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations is free cash flow reduced by equipment acquired under finance leases, which is included in “Property and equipment acquired under finance leases,” principal repayments of all other finance lease liabilities, which is included in “Principal repayments of finance leases,” and “Principal repayments of financing obligations.”

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions)
(unaudited)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Y/Y % Change
Segments							
North America Segment:							
Net sales	\$ 34,348	\$ 44,124	\$ 35,812	\$ 38,653	\$ 42,638	\$ 53,670	22 %
Net sales -- Y/Y growth, excluding F/X	35 %	18 %	17 %	20 %	24 %	22 %	N/A
Net sales -- TTM	\$ 134,545	\$ 141,366	\$ 146,453	\$ 152,938	\$ 161,228	\$ 170,773	21 %
Operating income	\$ 2,032	\$ 2,251	\$ 2,287	\$ 1,564	\$ 1,282	\$ 1,900	(16)%
F/X impact -- favorable (unfavorable)	\$ 9	\$ 17	\$ 13	\$ 7	\$ 6	\$ (3)	N/A
Operating income -- Y/Y growth (decline), excluding F/X	N/A	32 %	98 %	(15)%	(37)%	(16)%	N/A
Operating margin -- % of North America net sales	5.9 %	5.1 %	6.4 %	4.0 %	3.0 %	3.5 %	N/A
Operating income -- TTM	\$ 6,708	\$ 7,267	\$ 8,405	\$ 8,134	\$ 7,384	\$ 7,033	(3)%
Operating margin -- TTM % of North America net sales	5.0 %	5.1 %	5.7 %	5.3 %	4.6 %	4.1 %	N/A
International Segment:							
Net sales	\$ 15,549	\$ 20,829	\$ 16,192	\$ 16,370	\$ 18,348	\$ 23,813	14 %
Net sales -- Y/Y growth, excluding F/X	15 %	19 %	16 %	17 %	21 %	15 %	N/A
Net sales -- TTM	\$ 63,074	\$ 65,866	\$ 67,184	\$ 68,941	\$ 71,740	\$ 74,723	13 %
Operating income (loss)	\$ (385)	\$ (642)	\$ (90)	\$ (601)	\$ (386)	\$ (617)	(4)%
F/X impact -- favorable (unfavorable)	\$ 47	\$ 55	\$ (39)	\$ (36)	\$ (34)	\$ (7)	N/A
Operating income/loss -- Y/Y growth (decline), excluding F/X	(54)%	(24)%	(92)%	15 %	(8)%	(5)%	N/A
Operating margin -- % of International net sales	(2.5)%	(3.1)%	(1.0)%	(3.7)%	(2.1)%	(2.6)%	N/A
Operating income (loss) -- TTM	\$ (2,420)	\$ (2,142)	\$ (1,610)	\$ (1,718)	\$ (1,718)	\$ (1,693)	(21)%
Operating margin -- TTM % of International net sales	(3.8)%	(3.3)%	(2.4)%	(2.5)%	(2.4)%	(2.3)%	N/A
AWS Segment:							
Net sales	\$ 6,679	\$ 7,430	\$ 7,696	\$ 8,381	\$ 8,995	\$ 9,954	34 %
Net sales -- Y/Y growth, excluding F/X	46 %	46 %	42 %	37 %	35 %	34 %	N/A
Net sales -- TTM	\$ 23,339	\$ 25,655	\$ 27,909	\$ 30,185	\$ 32,501	\$ 35,026	37 %
Operating income	\$ 2,077	\$ 2,177	\$ 2,223	\$ 2,121	\$ 2,261	\$ 2,596	19 %
F/X impact -- favorable (unfavorable)	\$ 34	\$ 51	\$ 110	\$ 87	\$ 50	\$ 26	N/A
Operating income -- Y/Y growth, excluding F/X	75 %	57 %	51 %	24 %	6 %	18 %	N/A
Operating margin -- % of AWS net sales	31.1 %	29.3 %	28.9 %	25.3 %	25.1 %	26.1 %	N/A
Operating income -- TTM	\$ 6,473	\$ 7,296	\$ 8,119	\$ 8,598	\$ 8,782	\$ 9,201	26 %
Operating margin -- TTM % of AWS net sales	27.7 %	28.4 %	29.1 %	28.5 %	27.0 %	26.3 %	N/A

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except employee data)
(unaudited)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Y/Y % Change
Net Sales							
Online stores (1)	\$ 29,061	\$ 39,822	\$ 29,498	\$ 31,053	\$ 35,039	\$ 45,657	15 %
Online stores -- Y/Y growth, excluding F/X	11%	14 %	12%	16%	22 %	15 %	N/A
Physical stores (2)	\$ 4,248	\$ 4,401	\$ 4,307	\$ 4,330	\$ 4,192	\$ 4,363	(1)%
Physical stores -- Y/Y growth, excluding F/X	N/A	(3)%	1%	1%	(1)%	(1)%	N/A
Third-party seller services (3)	\$ 10,395	\$ 13,383	\$ 11,141	\$ 11,962	\$ 13,212	\$ 17,446	30 %
Third-party seller services -- Y/Y growth, excluding F/X	32%	28 %	23%	25%	28 %	31 %	N/A
Subscription services (4)	\$ 3,698	\$ 3,959	\$ 4,342	\$ 4,676	\$ 4,957	\$ 5,235	32 %
Subscription services -- Y/Y growth, excluding F/X	52%	26 %	42%	39%	35 %	32 %	N/A
AWS	\$ 6,679	\$ 7,430	\$ 7,696	\$ 8,381	\$ 8,995	\$ 9,954	34 %
AWS -- Y/Y growth, excluding F/X	46%	46 %	42%	37%	35 %	34 %	N/A
Other (5)	\$ 2,495	\$ 3,388	\$ 2,716	\$ 3,002	\$ 3,586	\$ 4,782	41 %
Other -- Y/Y growth, excluding F/X (6)	123%	97 %	36%	37%	45 %	41 %	N/A
Stock-based Compensation Expense							
Cost of sales	\$ 19	\$ 21	\$ 24	\$ 43	\$ 39	\$ 43	103 %
Fulfillment	\$ 269	\$ 287	\$ 234	\$ 360	\$ 301	\$ 286	— %
Technology and content	\$ 719	\$ 750	\$ 675	\$ 1,077	\$ 966	\$ 1,007	34 %
Marketing	\$ 201	\$ 217	\$ 209	\$ 307	\$ 298	\$ 322	48 %
General and administrative	\$ 142	\$ 142	\$ 132	\$ 184	\$ 175	\$ 182	29 %
Total stock-based compensation expense	\$ 1,350	\$ 1,417	\$ 1,274	\$ 1,971	\$ 1,779	\$ 1,840	30 %
Other							
WW shipping costs	\$ 6,568	\$ 9,041	\$ 7,320	\$ 8,134	\$ 9,608	\$ 12,884	43 %
WW shipping costs -- Y/Y growth	22%	23 %	21%	36%	46 %	43 %	N/A
WW paid units -- Y/Y growth (7)	15%	14 %	10%	18%	22 %	22 %	N/A
WW seller unit mix -- % of WW paid units (7)	53%	52 %	53%	54%	53 %	53 %	N/A
Employees (full-time and part-time; excludes contractors & temporary personnel)	613,300	647,500	630,600	653,300	750,000	798,000	23 %
Employees (full-time and part-time; excludes contractors & temporary personnel) -- Y/Y growth	13%	14 %	12%	13%	22 %	23 %	N/A

- (1) Includes product sales and digital media content where we record revenue gross. We leverage our retail infrastructure to offer a wide selection of consumable and durable goods that includes media products available in both a physical and digital format, such as books, music, videos, games, and software. These product sales include digital products sold on a transactional basis. Digital product subscriptions that provide unlimited viewing or usage rights are included in "Subscription services."
- (2) Includes product sales where our customers physically select items in a store. Sales from customers who order goods online for delivery or pickup at our physical stores are included in "Online stores."
- (3) Includes commissions and any related fulfillment and shipping fees, and other third-party seller services.
- (4) Includes annual and monthly fees associated with Amazon Prime memberships, as well as audiobook, digital video, digital music, e-book, and other non-AWS subscription services.
- (5) Primarily includes sales of advertising services, as well as sales related to our other service offerings.
- (6) As a result of revenue recognition accounting guidance adopted on January 1, 2018, certain advertising services are classified as revenue rather than a reduction in cost of sales.
- (7) Excludes the impact of Whole Foods Market.

**Amazon.com, Inc.
Certain Definitions**

Customer Accounts

- References to customers mean customer accounts established when a customer places an order through one of our stores. Customer accounts exclude certain customers, including customers associated with certain of our acquisitions, Amazon Payments customers, AWS customers, and the customers of select companies with whom we have a technology alliance or marketing and promotional relationship. Customers are considered active when they have placed an order during the preceding twelve-month period.

Seller Accounts

- References to sellers means seller accounts, which are established when a seller receives an order from a customer account. Sellers are considered active when they have received an order from a customer during the preceding twelve-month period.

AWS Customers

- References to AWS customers mean unique AWS customer accounts, which are unique customer account IDs that are eligible to use AWS services. This includes AWS accounts in the AWS free tier. Multiple users accessing AWS services via one account ID are counted as a single account. Customers are considered active when they have had AWS usage activity during the preceding one-month period.

Units

- References to units mean physical and digital units sold (net of returns and cancellations) by us and sellers in our stores as well as Amazon-owned items sold in other stores. Units sold are paid units and do not include units associated with AWS, certain acquisitions, certain subscriptions, rental businesses, or advertising businesses, or Amazon gift cards.

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AMAZON.COM ANNOUNCES FINANCIAL RESULTS AND CEO TRANSITION

*Founder and CEO Jeff Bezos will transition to role of Executive Chair in Q3,
Andy Jassy to become Chief Executive Officer of Amazon at that time*

SEATTLE—(BUSINESS WIRE) February 2, 2021—Amazon.com, Inc. (NASDAQ: AMZN) today announced financial results for its fourth quarter ended December 31, 2020.

- **Operating cash flow** increased 72% to \$66.1 billion for the trailing twelve months, compared with \$38.5 billion for the trailing twelve months ended December 31, 2019.
- **Free cash flow** increased to \$31.0 billion for the trailing twelve months, compared with \$25.8 billion for the trailing twelve months ended December 31, 2019.
- **Free cash flow less principal repayments of finance leases and financing obligations** increased to \$20.3 billion for the trailing twelve months, compared with \$16.2 billion for the trailing twelve months ended December 31, 2019.
- **Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations** increased to \$21.4 billion for the trailing twelve months, compared with \$12.5 billion for the trailing twelve months ended December 31, 2019.
- **Common shares outstanding plus shares underlying stock-based awards** totaled 518 million on December 31, 2020, compared with 512 million one year ago.

Fourth Quarter 2020

- **Net sales** increased 44% to \$125.6 billion in the fourth quarter, compared with \$87.4 billion in fourth quarter 2019. Excluding the \$1.7 billion favorable impact from year-over-year changes in foreign exchange rates throughout the quarter, net sales increased 42% compared with fourth quarter 2019.
- **Operating income** increased to \$6.9 billion in the fourth quarter, compared with operating income of \$3.9 billion in fourth quarter 2019.
- **Net income** increased to \$7.2 billion in the fourth quarter, or \$14.09 per diluted share, compared with net income of \$3.3 billion, or \$6.47 per diluted share, in fourth quarter 2019.

Full Year 2020

- **Net sales** increased 38% to \$386.1 billion, compared with \$280.5 billion in 2019. Excluding the \$1.4 billion favorable impact from year-over-year changes in foreign exchange rates throughout the year, net sales increased 37% compared with 2019.
- **Operating income** increased to \$22.9 billion, compared with operating income of \$14.5 billion in 2019.
- **Net income** increased to \$21.3 billion, or \$41.83 per diluted share, compared with net income of \$11.6 billion, or \$23.01 per diluted share, in 2019.

Amazon is also announcing today that Jeff Bezos will transition to the role of Executive Chair in the third quarter of 2021 and Andy Jassy will become Chief Executive Officer at that time.

“Amazon is what it is because of invention. We do crazy things together and then make them normal. We pioneered customer reviews, 1-Click, personalized recommendations, Prime’s insanely-fast shipping, Just Walk Out shopping, the Climate Pledge, Kindle, Alexa, marketplace, infrastructure cloud computing, Career Choice, and much more,” said Jeff Bezos, Amazon founder and CEO. “If you do it right, a few years after a surprising invention, the new thing has become normal. People yawn. That yawn is the greatest compliment an inventor can receive. When you look at our financial results, what you’re actually seeing are the long-run cumulative results of invention. Right now I see Amazon at its most inventive ever, making it an optimal time for this transition.”

Highlights

Investing in Employee Safety and Providing Good Jobs

- Amazon is working to ensure that its front-line employees receive vaccines as soon as possible. The company is closely monitoring the availability of COVID-19 vaccines worldwide, advocating on behalf of its employees, and working in partnership with global medical experts, governments, and health providers to accelerate vaccination programs.
- Amazon continues to ramp up its in-house COVID-19 testing program as part of its investments to keep front-line employees safe. More than 700 employees are now tested every hour, and Amazon’s dedicated COVID-19 labs have processed more than one million tests globally.
- Amazon recognized front-line employees by investing \$2.5 billion in additional pay in 2020. This is on top of the company’s industry-leading starting wage of at least \$15 an hour, which is double the federal minimum wage. All full-time employees also receive healthcare and full benefits from their first day on the job.
- Amazon received the Lee Anderson Veteran and Military Spouse Employment Award for excellence in hiring, training, and retaining veterans, transitioning service members, and military spouses. Amazon employs more than 40,000 veterans and military spouses across the U.S.

Supporting Communities

- Amazon announced a new Housing Equity Fund, a \$2 billion commitment to preserve and create over 20,000 affordable housing units in Washington State’s Puget Sound region; Arlington, Virginia; and Nashville, Tennessee. The Fund provides below-market loans and grants to housing partners, public agencies, and minority-led organizations. It started with initial investments totaling \$567 million for 2,300 affordable apartment homes.
- Amazon announced plans to provide free cloud skills training to 29 million people around the world by 2025, as it continues to invest in upskilling and career development for its customers and employees. The AWS-designed programs range from self-paced online courses to intensive upskilling programs that help participants build new careers in the technology industry. This expands on Amazon’s Upskilling 2025 initiative, a \$700 million commitment to upskill 100,000 U.S. employees by helping them transition into high-demand, high-paying jobs, as well as Career Choice, a program that pre-pays tuition for employees looking to earn degrees in in-demand fields.
- Amazon unveiled plans for the second phase of construction for its headquarters in Arlington, Virginia. Amazon plans to build 2.8 million square feet of office space as part of its commitment to create 25,000 jobs and invest \$2.5 billion in the community over the next decade. The project will create more than 2.5 acres of open space for the local community, run on renewable energy, and bring retail and other services to local residents.
- Amazon in the UK expanded its long-standing partnership with nonprofit Magic Breakfast to reach more children at risk of hunger. In addition to being a significant financial donor, Amazon distributed more than two million free, healthy breakfasts to children studying at home due to COVID-19 who would normally receive these meals at school.
- In the UK, Amazon delivered more than six million COVID-19 testing kits free of charge, in support of the government’s COVID-19 testing program.

- Globally, Amazon has donated over 65,000 Echo devices, Fire Tablets, and other devices throughout the COVID-19 crisis to organizations that support frontline workers and first responders, and to help keep patients, students, and communities impacted by the pandemic connected.
- In support of World AIDS Day and Giving Tuesday, Amazon announced the limited-edition (echo)^{RED}. Available in the all-new spherical design, (echo)^{RED} offers premium sound and a built-in smart home hub. Amazon will donate \$10 of every (echo)^{RED} sale to support (RED)'s fight against AIDS and COVID-19 in sub-Saharan Africa. Customers can also donate to (RED)'s fight against the COVID-19 and HIV/AIDS pandemics on any Alexa-enabled device by simply saying, “*Alexa, donate to RED.*”
- Ring announced a new program with Habitat for Humanity, a global nonprofit that shares Ring's commitment to help make homes and neighborhoods safer, including a donation of \$1 million worth of Ring Video Doorbells to provide Habitat homeowners with added peace of mind.

Protecting the Planet

- Amazon became the world's largest corporate purchaser of renewable energy, taking another step in its journey to be net-zero carbon by 2040. The company is investing in the building of 26 new utility-scale wind and solar projects in Australia, France, Germany, Italy, South Africa, Sweden, the UK, and the U.S., bringing Amazon's total number of renewable energy projects to 127. Amazon's investments will supply its operations with more than 18,000 gigawatt hours (GWh) of renewable energy annually, helping put the company on a path to achieve 100% renewable energy by 2025, five years ahead of the initial 2030 target.
- Thirty-one organizations have signed The Climate Pledge, a commitment co-founded by Amazon and Global Optimism to achieve net-zero carbon by 2040. Twenty of those companies signed The Climate Pledge last quarter: Atos, Boom Supersonic, Brooks, Cabify, Canary Wharf Group, Coca-Cola European Partners, ERM, Groupe SEB France, Harbour Air, Henkel, ITV, JetBlue, Microsoft, Neste, Rivian, Rubicon, Signify, Uber, Unilever, and Vaude.
- Amazon joined the Food Loss and Waste 2030 Champions group, an effort by the U.S. Environmental Protection Agency and Department of Agriculture to reduce food loss and waste within U.S. company operations by 50% by 2030.
- Amazon expanded Climate Pledge Friendly, a program to help customers discover and shop for more sustainable products, in five countries across Europe. The program launched with over 40,000 Climate Pledge Friendly products in France, Germany, Italy, Spain, and the UK.

Empowering Small and Medium-Sized Businesses

- The 2020 holiday season was the best ever for independent businesses selling on Amazon—nearly all of which are small and medium-sized businesses—with worldwide sales growing over 50% compared to the same period in 2019. Sellers surpassed \$4.8 billion in worldwide sales from Black Friday through Cyber Monday, growing about 60% from the previous year. During the holiday season as a whole, small and medium-sized businesses in the U.S. sold nearly one billion products in Amazon's store.
- Since the start of the COVID-19 pandemic, Amazon has incurred more than \$5 billion in operational costs on behalf of independent businesses selling in Amazon's store, and expects to invest billions more through 2021. In 2020, Amazon increased square footage across its fulfillment and logistics network by 50%, dedicated 60% of fulfillment center capacity to seller products, and postponed annual selling fee adjustments until June 2021.
- As part of the AWS Activate program, Amazon provided more than \$1 billion in AWS credits during 2020 to help early stage startups launch their businesses and accelerate their growth. With this help, startups are using scalable, reliable, and secure cloud services like compute, storage, database, analytics, Internet of Things, machine learning, and many others from AWS to scale their businesses.
- Amazon launched small business accelerator programs across Europe to help entrepreneurs and small businesses succeed in the digital world. These programs offer free access to online training, expert advice, live events, and services, and they include the Amazon Small Business Accelerator in the UK, Quickstart-Online in Germany, Despega

in Spain, Accelera con Amazon in Italy, and Accelérateur du Numerique in France. The programs are delivered in collaboration with associations and universities, and they have already supported tens of thousands of small businesses.

- In December, Amazon India hosted Small Business Day, an event to increase visibility and sales for entrepreneurs and small businesses selling in Amazon's store. Over 55,000 sellers from over 4,000 Postal Index Codes benefitted from Small Business Day, and over 1,500 sellers had their highest ever day of sales on Amazon.
- In 2020, thousands of independent authors earned more than \$50,000 through Kindle Direct Publishing, with more than 1,000 authors surpassing \$100,000 in royalties.
- In 2020, authors using Amazon's self-publishing service Kindle Direct Publishing (KDP) earned more than \$370 million in royalties from their participation in Kindle Unlimited. KDP authors have earned more than \$1.5 billion from participation in Kindle Unlimited since 2014.

Shopping and Entertainment

- Thanks to customers, employees, and selling partners, Amazon had a record-breaking holiday season, delivering more than a billion toys, home, fashion, electronics, beauty, and personal care products to customers worldwide.
- Amazon Pharmacy launched in the U.S., bringing prescription medications to customers' doorsteps. Customers can now browse medications, create a secure pharmacy profile, and request or manage prescriptions on Amazon.com. Prime members receive unlimited, free two-day delivery on Amazon Pharmacy orders with their membership.
- Amazon launched a new Amazon Prime prescription savings benefit, which brings pharmacy savings to customers who pay without insurance and can be used at 50,000 participating pharmacies nationwide.
- Amazon Fashion introduced Made For You, a way for customers to design custom T-shirts to their exact measurements and style preferences. For just \$25, U.S. shoppers can customize a T-shirt's fit, fabric, color, sleeve length, shirt length, neckline, and back-neck label.
- Amazon India's Great Indian Festival shopping event focused on enabling the revival of small and medium-sized businesses and helping customers, even in remote areas of the country, shop safely and conveniently from their homes. During the month-long event, customers purchased items from over 110,000 sellers, the majority of whom were from rural towns.
- Hudson, a travel experience leader with over 1,000 stores across North America, announced it will use Amazon's Just Walk Out technology in select travel convenience stores. Just Walk Out technology enables shoppers to enter a store, grab what they want, and just go. The first Hudson store with Just Walk Out technology is planned to open in early 2021 at Dallas Love Field Airport, with additional stores coming later this year.
- Amazon Fresh grocery stores expanded into seven new communities in the U.S.: Irvine, CA; Ladera Heights, CA; Naperville, IL; North Hollywood, CA; Northridge, CA; Schaumburg, IL; and Whittier, CA. To support the continued growth, Amazon is hiring thousands of grocery associates across Chicagoland, the greater Los Angeles area, and Seattle.
- Amazon was identified as the best overall grocery retailer by dunnhumby Retailer Preference Index that ranks the top 57 grocery retailers in the U.S. based on an annual survey of 10,000 U.S. households. The survey also placed Amazon at the top of the list for customer safety ratings.
- Amazon Music signed an agreement to acquire innovative podcast publisher, Wondery. Through this acquisition, Amazon Music aims to accelerate the growth and evolution of podcasts by bringing creators, hosts, and immersive experiences to even more listeners across the globe. Wondery will be able to provide more high-quality, innovative content, continuing their mission of bringing a world of entertainment and knowledge to their audiences, wherever they listen. The acquisition is not yet closed and is subject to customary closing conditions.
- Prime Video continues to launch Amazon Original series and movies globally. Amazon Original movie *Borat Subsequent Moviefilm*, starring Sacha Baron Cohen, generated tens of millions of customer streams globally on opening weekend. Other popular Amazon Original movies include *Uncle Frank*, *Sylvie's Love*, *Sound of Metal*, and

I'm Your Woman. Prime Video members also enjoyed new and returning Amazon Original series and specials such as *What the Constitution Means to Me*, *Utopia*, *Truth Seekers*, *The Pack*, *Small Axe*, *The Wilds*, *The Expanse*, *Yearly Departed*, and the final season of *Vikings*. Internationally, locally produced Amazon Originals debuting included *FERRO* (Italy), *El Cid* (Spain), *The Challenge: ETA* (Spain), *BILD.Macht.Deutschland?* (Germany), *Binge Reloaded* (Germany), *Truth Seekers* (UK), *The Grand Tour: A Massive Hunt* (UK), *All or Nothing: Tottenham Hotspur* (UK), *The Bachelorette* (Japan), *Mirzapur* (India), and *Locas por el Cambio* (Mexico).

- The fourth quarter marked Prime Video's strongest viewership for live sports globally. In the U.S., Prime Video's exclusive coverage of the San Francisco 49ers vs. Arizona Cardinals game on December 26 drew an estimated 11.2 million total viewers and delivered the highest digital average-minute-audience ever for an NFL regular season game. In the UK, the number of customers tuning into live Premier League football grew for the second season as millions watched 22 live and exclusive matches on Prime Video. In addition, millions of Prime members streamed live, international rugby for the first-ever Autumn Nations Cup tournament; and in India, Prime Video announced its first foray into live sports, with the acquisition of India territory rights for New Zealand Cricket through 2025-26.
- Amazon Studios announced deals for upcoming Prime Video series and movies, including the Eddie Murphy comedy *Coming 2 America*, which premieres in March on Prime Video globally and an unscripted docuseries and new coming-of-age series based on Jessica Simpson's best-selling memoir *Open Book*.

Amazon Devices and Services

- Amazon announced that Fire TV now reaches more than 50 million monthly active users around the world. Amazon also secured new content deals with premium streaming providers, including HBO Max, discovery+, and Xfinity in the U.S.; Disney+ in Mexico and Brazil; NOW TV in the UK; and CANAL+ in France. The new Fire TV Experience released globally includes a redesigned Home Screen, Profiles, and a new voice-first experience with Alexa to easily discover content.
- Zoox revealed the first look at their fully functional, electric, autonomous vehicle, which features bi-directional driving and is capable of speeds up to 75 miles per hour.
- Amazon announced Alexa Custom Assistant, a new service that lets device makers, auto makers, and service providers create custom-branded voice assistants that are powered by and work in cooperation with Alexa. The Alexa Custom Assistant can be built into automobiles and consumer electronics, including smart displays, speakers, set top boxes, fitness devices, and more, providing a complete, managed voice solution that substantially reduces cost, complexity, and time to market.
- Amazon continued to make progress on Project Kuiper, a low earth orbit satellite constellation that will increase broadband access for unserved and underserved communities around the world. In December, the team revealed designs for the Ka-band phased array antenna that will be used in its customer terminal. The antenna is smaller and lighter than legacy designs, allowing Amazon to produce a customer terminal that is more affordable and easier to install.
- Ring introduced general availability of its new Mailbox Sensor to customers, launched Customizable Motion Zones for all battery-powered Ring Video Doorbells and Security Cameras, and became the first major smart home security company to offer Video End-to-End Encryption. Additionally, Ring announced Ring Video Doorbell Wired, its smallest doorbell yet, and availability of the Ring Alarm in Spain.
- Amazon took another step toward making interactions with Alexa more natural, and skills more discoverable, by introducing a new capability that infers customers' latent goals—goals that are implicit in customer requests but not directly expressed—and seamlessly transitions to a relevant skill without requiring the name of the skill, or repeating the same information across skills.
- Key by Amazon's In-Garage Delivery service expanded to tens of millions of Prime members in over 4,000 cities in the U.S., enabling them to enjoy free, contactless, and secure package delivery conveniently inside their garage to keep packages safe.

- Amazon announced the first Alexa built-in commercial trucking integration in Volvo Trucks in the EU; the first integration in Brazil with BMW's BMWi and MINI cars; and new vehicle launches with Dodge Durango, Chrysler Pacifica, Fiat 500 electric, and Acura MDX. Additionally, new Alexa integrations were announced at the Consumer Electronics Show (CES), including Harman, Intel, Lenovo, TP-Link, Rise Gardens, and more.
- Alexa added Netflix to its global roster of streaming service providers for Echo Show customers, giving them more at-home entertainment options. Amazon also added podcast support to Alexa from services like Amazon Music, Apple, and Spotify in more countries around the world.
- Alexa became more multilingual, allowing members of a household to interact with Alexa in two different languages without needing to change the settings. In the U.S., multilingual mode allows bilingual customers to code-switch from English to Spanish, and vice versa. Amazon also launched multilingual mode in new languages and countries including Germany, Spain, France, Italy, and Japan.
- Amazon added new Alexa features that make customers' daily lives more convenient, including the ability to share a shopping list with Alexa contacts by voice, video calling on Fire TV, and new Alexa Routines on Fire TV.

Amazon Web Services

- AWS announced significant customer momentum during the quarter with new commitments and migrations spanning major industries, including financial services with JPMorgan Chase, Itaú Unibanco (Latin America's largest bank), Standard Chartered Bank, and Nationwide; media and entertainment with Metro-Goldwyn-Mayer (MGM), Thomson Reuters, and ViacomCBS; technology with Arm and Twitter; travel with Boom Technology, Inc. (Boom Supersonic) and Star Alliance (the world's largest airline alliance); retail and e-commerce with Mercado Libre (Latin America's largest online commerce and payments provider) and Zalando (Europe's largest online fashion and lifestyle platform); power and utilities with Siemens Smart Infrastructure (a Siemens AG business group that focuses on energy distribution and intelligent buildings); and automotive with The BMW Group, as well as a multi-year, global agreement to develop and market BlackBerry's Intelligent Vehicle Data Platform, IVY.
- At AWS re:Invent, Amazon's ninth-annual learning conference for the global cloud computing and information technology communities, AWS attracted over 570,000 registered attendees and announced 180 new services and features, including:
 - The industry's first cloud-based Mac instances (EC2 Mac instances for Amazon Elastic Compute Cloud) that enable customers to develop, scale, and run macOS workloads in AWS.
 - Five new services that push the envelope on price performance and extend Amazon EC2's lead as the broadest and deepest portfolio of compute instances in the cloud, including Graviton2-powered C6gn instances that provide 40% better price performance for networking and compute-intensive workloads over comparable current generation x86-based instances, AMD-powered G4ad Graphics Processing Unit (GPU) instances that offer the industry's best price performance for graphics-intensive applications, M5zn instances that deliver the fastest Intel Xeon Scalable processors in the cloud, Intel-powered D3/D3en instances that offer the highest storage capacity for local HDD storage in the cloud, and memory-optimized R5b instances that deliver the fastest block storage performance available for Amazon EC2.
 - Nine new capabilities for Amazon SageMaker that make it even easier for developers and data scientists to prepare, build, train, deploy, and manage machine learning models.
 - Five new services for industrial customers that use machine learning to improve operational efficiency, quality control, security, and workplace safety. Amazon Monitron and Amazon Lookout for Equipment use sensor data to enable predictive maintenance. The AWS Panorama Appliance and SDK use computer vision to improve product quality and workplace safety. And, Amazon Lookout for Vision uses computer vision to spot anomalies and flaws in products and processes.
 - Amazon HealthLake, a HIPAA-eligible service, enables healthcare organizations to aggregate all their data from disparate locations in various formats, transform that data into a consistent format, store it, and provide easy ways to analyze that data in AWS.

- Five new capabilities for AWS's rapidly-growing contact center service, Amazon Connect, that significantly improve contact center agents' productivity and customers' experiences.
 - AQUA (Advanced Query Accelerator) for Amazon Redshift provides an innovative new hardware-accelerated cache that delivers up to 10x better query performance than any other cloud data warehouse.
 - AWS Glue Elastic Views lets developers easily build materialized views that automatically combine and replicate data across storage, data warehouses, and databases.
 - Amazon QuickSight Q delivers a machine learning-powered capability for Amazon QuickSight that lets users type questions about their business data in natural language and receive highly accurate answers in seconds.
 - Amazon EBS io2 Block Express volumes deliver the first storage area network (SAN) built for the cloud, with up to 256,000 input/output operations per second (IOPS), 4,000 MB/second throughput, and 64 TB of capacity.
 - Amazon EBS Gp3 volumes give customers the ability to provision additional IOPS and throughput performance independent of storage capacity, provide up to 4x peak throughput, and are priced 20% lower per GB than the previous general purpose EBS volumes.
 - Four new container services to help customers develop, deploy, and scale modern applications in the cloud and on-premises: Amazon Elastic Container Service (ECS) Anywhere and Amazon Elastic Kubernetes Service (EKS) Anywhere enable customers to run Amazon ECS and Amazon EKS in their own data centers, AWS Proton automates container and serverless application development and deployment, and Amazon Elastic Container Registry (Amazon ECR) Public provides developers an easy and highly available way to share and deploy container software publicly.
 - The next version of Aurora Serverless, Aurora Serverless v2, scales to hundreds of thousands of database transactions in a fraction of a second, delivering up to 90% cost savings compared to provisioning infrastructure for peak capacity.
 - Babelfish for Aurora PostgreSQL provides a new capability for Amazon Aurora that allows database customers to run SQL Server applications directly on Amazon Aurora PostgreSQL with little to no code changes (also, a new open source Babelfish for PostgreSQL will be available for all PostgreSQL database users in 2021).
 - Two new observability services for containers, IoT, and operational data, Amazon Managed Service for Prometheus and Amazon Managed Service for Grafana, built on popular open source projects to help customers monitor and visualize modern applications at scale.
- AWS continued to expand its infrastructure footprint around the world, announcing the AWS Asia Pacific (Hyderabad) Region, available by mid-2022, and the AWS Europe (Zurich) Region and AWS Asia Pacific (Melbourne) Regions, available in the second half of 2022. AWS provides 77 Availability Zones (AZs) within 24 geographic regions, with announced plans for 18 more Availability Zones in six more AWS Regions, including regions in Indonesia, Japan, and Spain, as well as the recently pre-announced regions in India, Switzerland, and Australia.
 - New AWS Local Zones in Boston, Houston, and Miami place AWS infrastructure close to end users in metropolitan centers, so customers can access low-latency compute, storage, and database services without needing to provision or maintain datacenter space. AWS also announced the availability of AWS Local Zones in 12 additional cities (Atlanta, Chicago, Dallas, Denver, Kansas City, Las Vegas, Minneapolis, New York, Philadelphia, Phoenix, Portland, and Seattle) coming in 2021.
 - AWS announced two new smaller AWS Outposts form factors (1U and 2U servers) that give customers access to AWS on-premises in space-constrained locations, such as branch offices, factories, hospitals, cell towers, or retail stores.
 - AWS announced the general availability of Amazon EC2 P4d instances, the next generation of accelerated computing instances powered by NVIDIA A100 Tensor Core GPUs and AWS petabit-scale networking. P4d instances provide up to 3x faster time to train and 60% lower cost than previous generation instances for machine learning training and

high-performance computing in the cloud. EC2 P4d instances are also the only instances in the cloud to feature UltraCluster capability, enabling customers to scale to 2x the computing power as any other cloud provider.

- AWS announced AWS Trainium, an AWS-designed machine learning training chip that will deliver the most cost-effective training in the cloud. AWS Trainium will deliver the most teraflops of any machine learning training instance in the cloud, support all major frameworks (including TensorFlow, PyTorch, and MXnet), and use the same Neuron SDK used by AWS Inferentia (an AWS-designed chip for machine learning inference acceleration), making it easy for customers to get started training quickly with AWS Trainium. AWS Trainium is coming to Amazon EC2 and Amazon SageMaker in the second half of 2021.

Financial Guidance

The following forward-looking statements reflect Amazon.com's expectations as of February 2, 2021, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce, and cloud services, and the various factors detailed below. This guidance reflects our estimates as of February 2, 2021 regarding the impact of the COVID-19 pandemic on our operations, including those discussed above, and is highly dependent on numerous factors that we may not be able to predict or control, including: the duration and scope of the pandemic, including any recurrence; actions taken by governments, businesses, and individuals in response to the pandemic; the impact of the pandemic on global and regional economies and economic activity, workforce staffing and productivity, and our significant and continuing spending on employee safety measures; our ability to continue operations in affected areas; and consumer demand and spending patterns, as well as the effects on suppliers, creditors, and third-party sellers, all of which are uncertain. This guidance also assumes the impacts on consumer demand and spending patterns, including impacts due to concerns over the current economic outlook, will be in line with those experienced during the first quarter of 2021 to date, and the additional assumptions set forth below. However, it is not possible to determine the ultimate impact on our operations for the first quarter of 2021, or whether other currently unanticipated direct or indirect consequences of the pandemic are reasonably likely to materially affect our operations.

First Quarter 2021 Guidance

- Net sales are expected to be between \$100.0 billion and \$106.0 billion, or to grow between 33% and 40% compared with first quarter 2020. This guidance anticipates a favorable impact of approximately 300 basis points from foreign exchange rates.
- Operating income is expected to be between \$3.0 billion and \$6.5 billion, compared with \$4.0 billion in first quarter 2020. This guidance assumes approximately \$2.0 billion of costs related to COVID-19.
- This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded.

A conference call will be webcast live today at 2:30 p.m. PT/5:30 p.m. ET, and will be available for at least three months at amazon.com/ir. This call will contain forward-looking statements and other material information regarding the Company's financial and operating results.

These forward-looking statements are inherently difficult to predict. Actual results could differ materially for a variety of reasons, including, in addition to the factors discussed above, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products and services sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income or other taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of claims, litigation, government investigations, and other proceedings, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, variability in demand, the degree to which the Company enters into, maintains, and develops commercial agreements, proposed and completed acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. Other risks and uncertainties include, among others, risks related to new products, services, and technologies, system interruptions, government regulation and taxation, and fraud. In addition, additional or unforeseen effects from the COVID-19 pandemic and the global economic climate may give rise to or amplify many of these risks. More information about factors that potentially could affect Amazon.com's financial results is included in Amazon.com's filings with the Securities and Exchange Commission ("SEC"), including its most recent Annual Report on Form 10-K and subsequent filings.

Our investor relations website is amazon.com/ir and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the SEC, corporate governance information (including our Code of Business Conduct and Ethics), and select press releases, which may contain material information about us, and you may subscribe to be notified of new information posted to this site.

About Amazon

Amazon is guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. Customer reviews, 1-Click shopping, personalized recommendations, Prime, Fulfillment by Amazon, AWS, Kindle Direct Publishing, Kindle, Fire tablets, Fire TV, Amazon Echo, and Alexa are some of the products and services pioneered by Amazon. For more information, visit amazon.com/about and follow @AmazonNews.

AMAZON.COM, INC.
Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2020	2019	2020
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	\$ 23,554	\$ 30,202	\$ 32,173	\$ 36,410
OPERATING ACTIVITIES:				
Net income	3,268	7,222	11,588	21,331
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization of property and equipment and capitalized content costs, operating lease assets, and other	6,170	7,618	21,789	25,251
Stock-based compensation	1,840	2,562	6,864	9,208
Other operating expense (income), net	50	(487)	164	(71)
Other expense (income), net	(494)	(1,327)	(249)	(2,582)
Deferred income taxes	185	(1,636)	796	(554)
Changes in operating assets and liabilities:				
Inventories	(1,516)	329	(3,278)	(2,849)
Accounts receivable, net and other	(3,906)	(4,560)	(7,681)	(8,169)
Accounts payable	10,683	13,249	8,193	17,480
Accrued expenses and other	2,894	7,127	(1,383)	5,754
Unearned revenue	485	333	1,711	1,265
Net cash provided by (used in) operating activities	19,659	30,430	38,514	66,064
INVESTING ACTIVITIES:				
Purchases of property and equipment	(5,312)	(14,824)	(16,861)	(40,140)
Proceeds from property and equipment sales and incentives	1,371	1,629	4,172	5,096
Acquisitions, net of cash acquired, and other	(777)	(380)	(2,461)	(2,325)
Sales and maturities of marketable securities	7,626	17,338	22,681	50,237
Purchases of marketable securities	(6,444)	(20,801)	(31,812)	(72,479)
Net cash provided by (used in) investing activities	(3,536)	(17,038)	(24,281)	(59,611)
FINANCING ACTIVITIES:				
Proceeds from short-term debt, and other	680	2,434	1,402	6,796
Repayments of short-term debt, and other	(815)	(2,291)	(1,518)	(6,177)
Proceeds from long-term debt	418	531	871	10,525
Repayments of long-term debt	(1,050)	(113)	(1,166)	(1,553)
Principal repayments of finance leases	(2,780)	(2,368)	(9,628)	(10,642)
Principal repayments of financing obligations	(24)	(9)	(27)	(53)
Net cash provided by (used in) financing activities	(3,571)	(1,816)	(10,066)	(1,104)
Foreign currency effect on cash, cash equivalents, and restricted cash	304	599	70	618
Net increase (decrease) in cash, cash equivalents, and restricted cash	12,856	12,175	4,237	5,967
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$ 36,410	\$ 42,377	\$ 36,410	\$ 42,377
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest on debt	\$ 155	\$ 201	\$ 875	\$ 916
Cash paid for operating leases	941	1,201	3,361	4,475
Cash paid for interest on finance leases	166	128	647	612
Cash paid for interest on financing obligations	19	31	39	102
Cash paid for income taxes, net of refunds	188	420	881	1,713
Assets acquired under operating leases	2,476	4,347	7,870	16,217
Property and equipment acquired under finance leases	4,182	2,695	13,723	11,588
Property and equipment acquired under build-to-suit arrangements	252	1,039	1,362	2,267

AMAZON.COM, INC.
Consolidated Statements of Operations
(in millions, except per share data)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2020	2019	2020
Net product sales	\$ 50,542	\$ 71,056	\$ 160,408	\$ 215,915
Net service sales	36,895	54,499	120,114	170,149
Total net sales	87,437	125,555	280,522	386,064
Operating expenses:				
Cost of sales	53,977	79,284	165,536	233,307
Fulfillment	12,192	18,474	40,232	58,517
Technology and content	9,740	12,049	35,931	42,740
Marketing	6,172	7,403	18,878	22,008
General and administrative	1,412	1,968	5,203	6,668
Other operating expense (income), net	65	(496)	201	(75)
Total operating expenses	83,558	118,682	265,981	363,165
Operating income	3,879	6,873	14,541	22,899
Interest income	211	100	832	555
Interest expense	(455)	(414)	(1,600)	(1,647)
Other income (expense), net	418	1,206	203	2,371
Total non-operating income (expense)	174	892	(565)	1,279
Income before income taxes	4,053	7,765	13,976	24,178
Provision for income taxes	(786)	(566)	(2,374)	(2,863)
Equity-method investment activity, net of tax	1	23	(14)	16
Net income	\$ 3,268	\$ 7,222	\$ 11,588	\$ 21,331
Basic earnings per share	\$ 6.58	\$ 14.38	\$ 23.46	\$ 42.64
Diluted earnings per share	\$ 6.47	\$ 14.09	\$ 23.01	\$ 41.83
Weighted-average shares used in computation of earnings per share:				
Basic	496	502	494	500
Diluted	505	513	504	510

AMAZON.COM, INC.
Consolidated Statements of Comprehensive Income
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2020	2019	2020
Net income	\$ 3,268	\$ 7,222	\$ 11,588	\$ 21,331
Other comprehensive income (loss):				
Net change in foreign currency translation adjustments:				
Foreign currency translation adjustments, net of tax of \$1, \$(34), \$(5) and \$(36)	447	820	78	561
Reclassification adjustment for foreign currency translation included in "Other operating expense (income), net," net of tax of \$0, \$0, \$29 and \$0	—	—	(108)	—
Net foreign currency translation adjustments	447	820	(30)	561
Net change in unrealized gains (losses) on available-for-sale debt securities:				
Unrealized gains (losses), net of tax of \$1, \$(12), \$(12) and \$(83)	(2)	34	83	273
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$0, \$3, \$0 and \$8	(2)	(5)	(4)	(28)
Net unrealized gains (losses) on available-for-sale debt securities	(4)	29	79	245
Total other comprehensive income (loss)	443	849	49	806
Comprehensive income	\$ 3,711	\$ 8,071	\$ 11,637	\$ 22,137

AMAZON.COM, INC.

Segment Information
(in millions)
(unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2020	2019	2020
North America				
Net sales	\$ 53,670	\$ 75,346	\$ 170,773	\$ 236,282
Operating expenses	51,770	72,400	163,740	227,631
Operating income	<u>\$ 1,900</u>	<u>\$ 2,946</u>	<u>\$ 7,033</u>	<u>\$ 8,651</u>
International				
Net sales	\$ 23,813	\$ 37,467	\$ 74,723	\$ 104,412
Operating expenses	24,430	37,104	76,416	103,695
Operating income (loss)	<u>\$ (617)</u>	<u>\$ 363</u>	<u>\$ (1,693)</u>	<u>\$ 717</u>
AWS				
Net sales	\$ 9,954	\$ 12,742	\$ 35,026	\$ 45,370
Operating expenses	7,358	9,178	25,825	31,839
Operating income	<u>\$ 2,596</u>	<u>\$ 3,564</u>	<u>\$ 9,201</u>	<u>\$ 13,531</u>
Consolidated				
Net sales	\$ 87,437	\$ 125,555	\$ 280,522	\$ 386,064
Operating expenses	83,558	118,682	265,981	363,165
Operating income	3,879	6,873	14,541	22,899
Total non-operating income (expense)	174	892	(565)	1,279
Provision for income taxes	(786)	(566)	(2,374)	(2,863)
Equity-method investment activity, net of tax	1	23	(14)	16
Net income	<u>\$ 3,268</u>	<u>\$ 7,222</u>	<u>\$ 11,588</u>	<u>\$ 21,331</u>
Segment Highlights:				
Y/Y net sales growth:				
North America	22 %	40 %	21 %	38 %
International	14	57	13	40
AWS	34	28	37	30
Consolidated	21	44	20	38
Net sales mix:				
North America	61 %	60 %	61 %	61 %
International	27	30	27	27
AWS	12	10	12	12
Consolidated	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

AMAZON.COM, INC.
Consolidated Balance Sheets
(in millions, except per share data)

	<u>December 31, 2019</u>	<u>December 31, 2020</u>
		(unaudited)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 36,092	\$ 42,122
Marketable securities	18,929	42,274
Inventories	20,497	23,795
Accounts receivable, net and other	20,816	24,542
Total current assets	96,334	132,733
Property and equipment, net	72,705	113,114
Operating leases	25,141	37,553
Goodwill	14,754	15,017
Other assets	16,314	22,778
Total assets	<u>\$ 225,248</u>	<u>\$ 321,195</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47,183	\$ 72,539
Accrued expenses and other	32,439	44,138
Unearned revenue	8,190	9,708
Total current liabilities	87,812	126,385
Long-term lease liabilities	39,791	52,573
Long-term debt	23,414	31,816
Other long-term liabilities	12,171	17,017
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, \$0.01 par value:		
Authorized shares — 5,000		
Issued shares — 521 and 527		
Outstanding shares — 498 and 503	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	33,658	42,865
Accumulated other comprehensive income (loss)	(986)	(180)
Retained earnings	31,220	52,551
Total stockholders' equity	62,060	93,404
Total liabilities and stockholders' equity	<u>\$ 225,248</u>	<u>\$ 321,195</u>

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except per share data)
(unaudited)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Y/Y % Change
Cash Flows and Shares							
Operating cash flow -- trailing twelve months (TTM)	\$ 35,332	\$ 38,514	\$ 39,732	\$ 51,220	\$ 55,292	\$ 66,064	72 %
Operating cash flow -- TTM Y/Y growth	33 %	25 %	16 %	42 %	56 %	72 %	N/A
Purchases of property and equipment, net of proceeds from sales and incentives -- TTM	\$ 11,868	\$ 12,689	\$ 15,395	\$ 19,368	\$ 25,791	\$ 35,044	176 %
Principal repayments of finance leases -- TTM (1)	\$ 8,754	\$ 9,628	\$ 10,013	\$ 10,504	\$ 11,054	\$ 10,642	11 %
Principal repayments of financing obligations -- TTM (1)	\$ 129	\$ 27	\$ 43	\$ 56	\$ 68	\$ 53	96 %
Equipment acquired under finance leases -- TTM (1) (2)	\$ 12,580	\$ 12,916	\$ 12,209	\$ 11,952	\$ 11,116	\$ 9,104	(30)%
Principal repayments of all other finance leases -- TTM (1) (3)	\$ 302	\$ 392	\$ 407	\$ 415	\$ 413	\$ 427	9 %
Free cash flow -- TTM (4)	\$ 23,464	\$ 25,825	\$ 24,337	\$ 31,852	\$ 29,501	\$ 31,020	20 %
Free cash flow less principal repayments of finance leases and financing obligations -- TTM (1) (5)	\$ 14,581	\$ 16,170	\$ 14,281	\$ 21,292	\$ 18,379	\$ 20,325	26 %
Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations -- TTM (1) (6)	\$ 10,453	\$ 12,490	\$ 11,678	\$ 19,429	\$ 17,904	\$ 21,436	72 %
Common shares and stock-based awards outstanding	511	512	513	517	518	518	1 %
Common shares outstanding	495	498	499	501	502	503	1 %
Stock-based awards outstanding	16	14	14	16	16	15	6 %
Stock-based awards outstanding -- % of common shares outstanding	3.2 %	2.9 %	2.8 %	3.2 %	3.3 %	3.0 %	N/A
Results of Operations							
Worldwide (WW) net sales	\$ 69,981	\$ 87,437	\$ 75,452	\$ 88,912	\$ 96,145	\$ 125,555	44 %
WW net sales -- Y/Y growth, excluding F/X	25 %	21 %	27 %	41 %	36 %	42 %	N/A
WW net sales -- TTM	\$ 265,469	\$ 280,522	\$ 296,274	\$ 321,782	\$ 347,946	\$ 386,064	38 %
WW net sales -- TTM Y/Y growth, excluding F/X	22 %	22 %	23 %	28 %	31 %	37 %	N/A
Operating income	\$ 3,157	\$ 3,879	\$ 3,989	\$ 5,843	\$ 6,194	\$ 6,873	77 %
F/X impact -- favorable (unfavorable)	\$ 22	\$ 16	\$ 63	\$ 111	\$ 133	\$ 142	N/A
Operating income -- Y/Y growth (decline), excluding F/X	(16)%	2 %	(11)%	86 %	92 %	74 %	N/A
Operating margin -- % of WW net sales	4.5 %	4.4 %	5.3 %	6.6 %	6.4 %	5.5 %	N/A
Operating income -- TTM	\$ 14,448	\$ 14,541	\$ 14,109	\$ 16,868	\$ 19,905	\$ 22,899	57 %
Operating income -- TTM Y/Y growth (decline), excluding F/X	32 %	16 %	(6)%	11 %	36 %	54 %	N/A
Operating margin -- TTM % of WW net sales	5.4 %	5.2 %	4.8 %	5.2 %	5.7 %	5.9 %	N/A
Net income	\$ 2,134	\$ 3,268	\$ 2,535	\$ 5,243	\$ 6,331	\$ 7,222	121 %
Net income per diluted share	\$ 4.23	\$ 6.47	\$ 5.01	\$ 10.30	\$ 12.37	\$ 14.09	118 %
Net income -- TTM	\$ 11,347	\$ 11,588	\$ 10,563	\$ 13,180	\$ 17,377	\$ 21,331	84 %
Net income per diluted share -- TTM	\$ 22.57	\$ 23.01	\$ 20.93	\$ 26.04	\$ 34.21	\$ 41.83	82 %

- (1) On January 1, 2019, we adopted accounting guidance amending the accounting for leases, which did not have a material impact on our 2019 operating results. Prior period amounts were not retrospectively adjusted. Under this new guidance, leases we previously referred to as “capital leases” are now referred to as “finance leases.” Leases we previously referred to as “finance leases” are now referred to as “financing obligations.”
- (2) For the twelve months ended December 31, 2019 and 2020, this amount relates to equipment included in “Property and equipment acquired under finance leases” of \$13,723 million and \$11,588 million.
- (3) For the twelve months ended December 31, 2019 and 2020, this amount relates to property included in “Principal repayments of finance leases” of \$9,628 million and \$10,642 million.
- (4) Free cash flow is cash flow from operations reduced by “Purchases of property and equipment, net of proceeds from sales and incentives.”
- (5) Free cash flow less principal repayments of finance leases and financing obligations is free cash flow reduced by “Principal repayments of finance leases” and “Principal repayments of financing obligations.”
- (6) Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations is free cash flow reduced by equipment acquired under finance leases, which is included in “Property and equipment acquired under finance leases,” principal repayments of all other finance lease liabilities, which is included in “Principal repayments of finance leases,” and “Principal repayments of financing obligations.”

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions)
(unaudited)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Y/Y % Change
Segments							
North America Segment:							
Net sales	\$ 42,638	\$ 53,670	\$ 46,127	\$ 55,436	\$ 59,373	\$ 75,346	40 %
Net sales -- Y/Y growth, excluding F/X	24 %	22 %	29 %	44 %	39 %	40 %	N/A
Net sales -- TTM	\$ 161,228	\$ 170,773	\$ 181,088	\$ 197,871	\$ 214,606	\$ 236,282	38 %
Operating income	\$ 1,282	\$ 1,900	\$ 1,312	\$ 2,141	\$ 2,252	\$ 2,946	55 %
F/X impact -- favorable (unfavorable)	\$ 6	\$ (3)	\$ 5	\$ (4)	\$ —	\$ 7	N/A
Operating income -- Y/Y growth (decline), excluding F/X	(37)%	(16)%	(43)%	37 %	76 %	55 %	N/A
Operating margin -- % of North America net sales	3.0 %	3.5 %	2.8 %	3.9 %	3.8 %	3.9 %	N/A
Operating income -- TTM	\$ 7,384	\$ 7,033	\$ 6,057	\$ 6,634	\$ 7,604	\$ 8,651	23 %
Operating margin -- TTM % of North America net sales	4.6 %	4.1 %	3.4 %	3.4 %	3.5 %	3.7 %	N/A
International Segment:							
Net sales	\$ 18,348	\$ 23,813	\$ 19,106	\$ 22,668	\$ 25,171	\$ 37,467	57 %
Net sales -- Y/Y growth, excluding F/X	21 %	15 %	20 %	41 %	33 %	50 %	N/A
Net sales -- TTM	\$ 71,740	\$ 74,723	\$ 77,637	\$ 83,935	\$ 90,758	\$ 104,412	40 %
Operating income (loss)	\$ (386)	\$ (617)	\$ (398)	\$ 345	\$ 407	\$ 363	N/A
F/X impact -- favorable (unfavorable)	\$ (34)	\$ (7)	\$ (5)	\$ 32	\$ 152	\$ 232	N/A
Operating income/loss -- Y/Y growth (decline), excluding F/X	(8)%	(5)%	338 %	N/A	N/A	N/A	N/A
Operating margin -- % of International net sales	(2.1)%	(2.6)%	(2.1)%	1.5 %	1.6 %	1.0 %	N/A
Operating income (loss) -- TTM	\$ (1,718)	\$ (1,693)	\$ (2,001)	\$ (1,055)	\$ (262)	\$ 717	N/A
Operating margin -- TTM % of International net sales	(2.4)%	(2.3)%	(2.6)%	(1.3)%	(0.3)%	0.7 %	N/A
AWS Segment:							
Net sales	\$ 8,995	\$ 9,954	\$ 10,219	\$ 10,808	\$ 11,601	\$ 12,742	28 %
Net sales -- Y/Y growth, excluding F/X	35 %	34 %	33 %	29 %	29 %	28 %	N/A
Net sales -- TTM	\$ 32,501	\$ 35,026	\$ 37,549	\$ 39,976	\$ 42,582	\$ 45,370	30 %
Operating income	\$ 2,261	\$ 2,596	\$ 3,075	\$ 3,357	\$ 3,535	\$ 3,564	37 %
F/X impact -- favorable (unfavorable)	\$ 50	\$ 26	\$ 63	\$ 83	\$ (20)	\$ (96)	N/A
Operating income -- Y/Y growth, excluding F/X	6 %	18 %	36 %	54 %	57 %	41 %	N/A
Operating margin -- % of AWS net sales	25.1 %	26.1 %	30.1 %	31.1 %	30.5 %	28.0 %	N/A
Operating income -- TTM	\$ 8,782	\$ 9,201	\$ 10,053	\$ 11,289	\$ 12,563	\$ 13,531	47 %
Operating margin -- TTM % of AWS net sales	27.0 %	26.3 %	26.8 %	28.2 %	29.5 %	29.8 %	N/A

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except employee data)
(unaudited)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Y/Y % Change
Net Sales							
Online stores (1)	\$ 35,039	\$ 45,657	\$ 36,652	\$ 45,896	\$ 48,350	\$ 66,451	46 %
Online stores -- Y/Y growth, excluding F/X	22 %	15 %	25 %	49 %	37 %	43 %	N/A
Physical stores (2)	\$ 4,192	\$ 4,363	\$ 4,640	\$ 3,774	\$ 3,788	\$ 4,022	(8)%
Physical stores -- Y/Y growth, excluding F/X	(1)%	(1)%	8 %	(13)%	(10)%	(7)%	N/A
Third-party seller services (3)	\$ 13,212	\$ 17,446	\$ 14,479	\$ 18,195	\$ 20,436	\$ 27,327	57 %
Third-party seller services -- Y/Y growth, excluding F/X	28 %	31 %	31 %	53 %	53 %	54 %	N/A
Subscription services (4)	\$ 4,957	\$ 5,235	\$ 5,556	\$ 6,018	\$ 6,572	\$ 7,061	35 %
Subscription services -- Y/Y growth, excluding F/X	35 %	32 %	29 %	30 %	32 %	34 %	N/A
AWS	\$ 8,995	\$ 9,954	\$ 10,219	\$ 10,808	\$ 11,601	\$ 12,742	28 %
AWS -- Y/Y growth, excluding F/X	35 %	34 %	33 %	29 %	29 %	28 %	N/A
Other (5)	\$ 3,586	\$ 4,782	\$ 3,906	\$ 4,221	\$ 5,398	\$ 7,952	66 %
Other -- Y/Y growth, excluding F/X	45 %	41 %	44 %	41 %	49 %	64 %	N/A
Stock-based Compensation Expense							
Cost of sales	\$ 39	\$ 43	\$ 41	\$ 76	\$ 75	\$ 91	112 %
Fulfillment	\$ 301	\$ 286	\$ 260	\$ 417	\$ 316	\$ 364	27 %
Technology and content	\$ 966	\$ 1,007	\$ 961	\$ 1,421	\$ 1,267	\$ 1,412	40 %
Marketing	\$ 298	\$ 322	\$ 332	\$ 456	\$ 446	\$ 476	48 %
General and administrative	\$ 175	\$ 182	\$ 163	\$ 231	\$ 184	\$ 219	20 %
Total stock-based compensation expense	\$ 1,779	\$ 1,840	\$ 1,757	\$ 2,601	\$ 2,288	\$ 2,562	39 %
Other							
WW shipping costs	\$ 9,608	\$ 12,884	\$ 10,936	\$ 13,652	\$ 15,063	\$ 21,465	67 %
WW shipping costs -- Y/Y growth	46 %	43 %	49 %	68 %	57 %	67 %	N/A
WW paid units -- Y/Y growth (6)	22 %	22 %	32 %	57 %	46 %	47 %	N/A
WW seller unit mix -- % of WW paid units (6)	53 %	53 %	52 %	53 %	54 %	55 %	N/A
Employees (full-time and part-time; excludes contractors & temporary personnel)	750,000	798,000	840,400	876,800	1,125,300	1,298,000	63 %
Employees (full-time and part-time; excludes contractors & temporary personnel) -- Y/Y growth	22 %	23 %	33 %	34 %	50 %	63 %	N/A

- (1) Includes product sales and digital media content where we record revenue gross. We leverage our retail infrastructure to offer a wide selection of consumable and durable goods that includes media products available in both a physical and digital format, such as books, videos, games, music, and software. These product sales include digital products sold on a transactional basis. Digital product subscriptions that provide unlimited viewing or usage rights are included in "Subscription services."
- (2) Includes product sales where our customers physically select items in a store. Sales to customers who order goods online for delivery or pickup at our physical stores are included in "Online stores."
- (3) Includes commissions and any related fulfillment and shipping fees, and other third-party seller services.
- (4) Includes annual and monthly fees associated with Amazon Prime memberships, as well as digital video, audiobook, digital music, e-book, and other non-AWS subscription services.
- (5) Primarily includes sales of advertising services, as well as sales related to our other service offerings.
- (6) Excludes the impact of Whole Foods Market.

Amazon.com, Inc.
Certain Definitions

Customer Accounts

- References to customers mean customer accounts established when a customer places an order through one of our stores. Customer accounts exclude certain customers, including customers associated with certain of our acquisitions, Amazon Payments customers, AWS customers, and the customers of select companies with whom we have a technology alliance or marketing and promotional relationship. Customers are considered active when they have placed an order during the preceding twelve-month period.

Seller Accounts

- References to sellers means seller accounts, which are established when a seller receives an order from a customer account. Sellers are considered active when they have received an order from a customer during the preceding twelve-month period.

AWS Customers

- References to AWS customers mean unique AWS customer accounts, which are unique customer account IDs that are eligible to use AWS services. This includes AWS accounts in the AWS free tier. Multiple users accessing AWS services via one account ID are counted as a single account. Customers are considered active when they have had AWS usage activity during the preceding one-month period.

Units

- References to units mean physical and digital units sold (net of returns and cancellations) by us and sellers in our stores as well as Amazon-owned items sold in other stores. Units sold are paid units and do not include units associated with AWS, certain acquisitions, certain subscriptions, rental businesses, or advertising businesses, or Amazon gift cards.

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AMAZON.COM ANNOUNCES SECOND QUARTER RESULTS

SEATTLE—(BUSINESS WIRE) July 29, 2021—Amazon.com, Inc. (NASDAQ: AMZN) today announced financial results for its second quarter ended June 30, 2021.

- **Operating cash flow** increased 16% to \$59.3 billion for the trailing twelve months, compared with \$51.2 billion for the trailing twelve months ended June 30, 2020.
- **Free cash flow** decreased to \$12.1 billion for the trailing twelve months, compared with \$31.9 billion for the trailing twelve months ended June 30, 2020.
- **Free cash flow less principal repayments of finance leases and financing obligations** decreased to \$0.6 billion for the trailing twelve months, compared with \$21.3 billion for the trailing twelve months ended June 30, 2020.
- **Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations** decreased to \$4.2 billion for the trailing twelve months, compared with \$19.4 billion for the trailing twelve months ended June 30, 2020.
- **Common shares outstanding plus shares underlying stock-based awards** totaled 522 million on June 30, 2021, compared with 517 million one year ago.
- **Net sales** increased 27% to \$113.1 billion in the second quarter, compared with \$88.9 billion in second quarter 2020. Excluding the \$2.5 billion favorable impact from year-over-year changes in foreign exchange rates throughout the quarter, net sales increased 24% compared with second quarter 2020.
- **Operating income** increased to \$7.7 billion in the second quarter, compared with \$5.8 billion in second quarter 2020.
- **Net income** increased to \$7.8 billion in the second quarter, or \$15.12 per diluted share, compared with \$5.2 billion, or \$10.30 per diluted share, in second quarter 2020.

“Over the past 18 months, our consumer business has been called on to deliver an unprecedented number of items, including PPE, food, and other products that helped communities around the world cope with the difficult circumstances of the pandemic. At the same time, AWS has helped so many businesses and governments maintain business continuity, and we’ve seen AWS growth reaccelerate as more companies bring forward plans to transform their businesses and move to the cloud,” said Andy Jassy, Amazon CEO. “Thank you to all of our passionate, innovative, mission-driven employees around the world for continuing to stay focused on delivering for customers—I am very excited to work with you as we invent and build for the future.”

Highlights

Investing in Employee Safety and Providing Good Jobs

- Amazon announced a first-of-its-kind partnership with the National Safety Council, a 100-year-old nonprofit that protects workers on and off the job, to invent new ways of preventing musculoskeletal disorders (MSDs), the most common workplace injury in the U.S. The five-year effort aims to reduce MSDs across a variety of industries by engaging key stakeholders, conducting new research, inventing technology and processes, and scaling the results. Amazon is investing over \$300 million into safety projects in 2021, including redesigning and retrofitting workstations, re-engineering cross-dock operations and powered-industrial-truck barriers, and implementing new safety control systems.

- In the UK, Amazon announced that it is creating more than 10,000 new corporate and operations jobs and investing £10 million over three years to train up to 5,000 employees in new skills.
- Amazon surpassed its commitment to hire 25,000 U.S. veterans and military spouses by 2021 and set a new commitment to hire an additional 100,000 veterans and military spouses by 2024.
- Amazon launched the Amazon Returnship program, a new initiative to help 1,000 experienced corporate professionals outside of Amazon who have been out of work for an extended period of time return to the workforce, including people who stopped working due to COVID-19, caregiving responsibilities, or medical circumstances. Amazon offers participants a paid, 16-week work opportunity with an abbreviated interview process, dedicated support, and personalized coaching and mentoring—as well as the possibility to transition into a full-time job at Amazon.
- Amazon introduced a new mental health benefit for all of its 950,000 U.S. employees, their families, and household members, which provides free access to personalized support, including one-on-one counseling and 24/7 crisis support.
- For the fourth year in a row, Amazon was included on the Disability Equality Index's Best Places to Work for Disability Inclusion.

Economic Impact and Small Business Empowerment

- For the second year in a row, Amazon placed No. 1 on the Progressive Policy Institute's Investment Heroes list, which ranks U.S. companies' investments in America. According to the study, Amazon invested more in the U.S. than any other company in 2020; was key to sustaining the economy during the COVID-19 pandemic; and helped drive economic expansion, wage growth, and job creation across the country.
- Amazon launched the Black Business Accelerator, committing \$150 million over four years to help Black business owners and entrepreneurs succeed as third-party selling partners. The program aims to spur growth and advance equity for Black-owned businesses by providing financial support, education and mentorship, and marketing and promotional support.
- In the two-week lead-up to Prime Day, customers spent \$1.9 billion on products from third-party sellers during the Spend \$10, Get \$10 promotion—more than double compared to the 2020 Prime Day small business promotion. Prime Day 2021 was the biggest two-day period ever for small and medium-sized businesses in Amazon's stores worldwide.
- Amazon Advertising launched over 40 new features and self-service capabilities, making it easier for sellers, companies, and authors to grow their businesses by helping customers discover their brands and products. Recent launches include regional sponsored product campaign creation tools; access to educational, technical, and marketing resources via the Partner Network; and a simplified creative asset management solution. In addition, Amazon Advertising expanded the services it offers in Australia, Europe, India, Japan, and Saudi Arabia, creating more opportunities for local and global sellers and brands to grow their businesses in these regions.

Supporting Communities

- Amazon's Housing Equity Fund has invested over \$800 million of its \$2 billion total. Its latest commitment of \$300 million will create 3,000 affordable housing units near public transit centers in the Puget Sound region of Washington state; Arlington, Virginia; and Nashville, Tennessee.
- Amazon India sprung into urgent action to help employees, partners, sellers, customers, and communities in recent months as the country faced an increase in COVID-19 cases. Amazon helped airlift over 14,000 life-saving medical items, including 100 intensive care unit ventilators as well as 10,000 oxygen and ventilation machines. As part of its efforts, Amazon worked with partners and nonprofits to deliver items to hospitals in the most urgent need, bearing the cost of airlifts and managing the urgent movement of medical equipment. In addition, Amazon India has vaccinated over 100,000 employees and their family members and has committed to vaccinate a total of 1 million employees, sellers, partners, and dependents. Amazon committed \$16.5 million in relief efforts, including direct donations and medical equipment delivery.
- In Nepal, Amazon teamed up with the United Nations World Food Programme to donate and deliver supplies to communities affected by COVID-19, including 850,000 personal protective items such as medical masks, goggles, and full-face protection for medical staff.
- Amazon's FDA-authorized at-home COVID-19 test collection kit is now available to U.S. customers through Amazon.com. The kits are processed by Amazon's in-house laboratory, which has processed millions of tests from over 750,000 Amazon front-line employees.

- Amazon opened its first Disaster Relief Hub in an Atlanta fulfillment center to help relief organizations respond more quickly to natural disasters in the U.S., the Caribbean, and Central America. The hub will store over 500,000 Amazon-donated relief supplies so they can be rapidly deployed when needed.
- Amazon Future Engineer (AFE), the company's computer science education program for students from historically underserved communities, announced its most recent round of awards in the U.S., including \$4 million in college scholarships and paid internships for 100 students and AFE Teacher of the Year Awards for 10 computer science educators who promote diversity and inclusion in computer science. Each of the winning teachers received a prize package to expand computer science and/or robotics education at their respective schools.
- Amazon celebrated Asian Pacific American Heritage Month in the U.S. by signing on as a founding partner of The Asian American Foundation, a new nonprofit dedicated to accelerating opportunity and prosperity for Asian American Pacific Islander (AAPI) communities. Amazon committed \$10 million over five years as part of the AAPI Giving Pledge.
- Ring launched a community program with the nonprofit Strength Based Community Change to improve individual and family resiliency, and advance community safety. As part of the program, Ring donated 1,000 Ring Video Doorbells, free installation, and a Ring Protect subscription to eligible residents in Wilmington, California.

Protecting the Planet

- Amazon announced 14 new renewable energy projects in Canada, Finland, Spain, and the U.S., making Amazon the largest corporate purchaser of renewable energy in the U.S., Europe, and the world. The new projects bring Amazon's total renewable energy investments to date to 10 gigawatts of electricity production capacity—enough to power 2.5 million U.S. homes. Amazon has reached 65% renewable energy across its business, up from 42% in 2019—putting the company on a path to power 100% of company activities with renewable energy by 2025—five years ahead of its 2030 target.
- Amazon welcomed Interpublic Group, Iron Mountain, JLL, Klarna, Macquarie Asset Management, and RELX to The Climate Pledge, joining other Pledge signatories such as PepsiCo, Uber, Microsoft, Unilever, Visa, and Colgate-Palmolive. From deploying clean energy solutions such as wind and solar, to implementing vehicle electrification and supporting nature-based climate solutions, the 112 Climate Pledge signatories are working together to significantly reduce corporate carbon emissions.
- Amazon added five new certifications to its Climate Pledge Friendly program to help shoppers find more sustainable products across grocery, household, and beauty. Amazon customers can now shop for products that are Animal Welfare Approved, EWG Verified, and Regenerative Organic Certified, as well as for those certified by Higg Index Materials and the U.S. Environmental Protection Agency's Safer Choice program.
- The Climate Pledge Fund invested in BETA Technologies to help accelerate the development of fully electric, zero-emission aircraft and in ION Energy, a technology platform that leverages intelligent battery analytics to significantly improve the life and performance of lithium-ion batteries. The Climate Pledge Fund also joined Greentown Labs, the largest climate tech startup incubator in North America, to further engage with startups and help accelerate the transition to a low-carbon economy.
- As part of its recent debt offering, Amazon issued a \$1 billion sustainability bond to further investments in tackling critical social and environmental issues. The proceeds are being used to fund projects in five areas: renewable energy, clean transportation, sustainable buildings, affordable housing, and socioeconomic advancement and empowerment.

Shopping

- Prime members in 20 countries shopped more and saved more this Prime Day than any previous Prime Day, purchasing more than 250 million items. The Fire TV Stick 4K with Alexa Voice Remote was the most popular item purchased. Prime Day also kicked off the Back-to-School shopping season with members worldwide purchasing more than 1 million laptops, 1 million headphones, 600,000 backpacks, 240,000 notebooks, 220,000 Crayola products, and 40,000 calculators.
- Prime is now available in 22 countries with the addition of Prime in Portugal, which offers members unlimited, free two-day delivery on millions of products, as well as access to Amazon Prime Video streaming.
- Business Prime now serves more than 1 million business customers of all sizes worldwide, including Chevron, Citi, and the State of Utah. Since launching in 2017, Business Prime has saved members millions of dollars by shipping over 140 million packages free of charge.

- For the first time, Amazon brought Just Walk Out technology to a full-sized grocery store, offering customers in Bellevue, Washington the option to skip the checkout line or use traditional checkout. Amazon Fresh now has 15 stores in the U.S. and five in the UK.
- Amazon Fashion expanded its head-to-toe outfit recommendations, which use machine learning models to inspire customers and help them find products that fit their unique style and complete their look. “Styling Ideas” are now available on Fashion product pages in France, Germany, India, Italy, Spain, and the U.S.
- Amazon Pharmacy introduced a six-month supply option for eligible medications, offering customers a new convenient way to purchase many of the most commonly prescribed medications. For Prime members, pharmacy purchases always include free, unlimited two-day delivery, and select medications start at just \$1 per month when customers pay without insurance.
- Amazon launched the “Internet Famous” storefront, a curated selection of the top trending products on social media. The storefront showcases immersive content that allows customers to discover brands across multiple categories while engaging with their favorite influencers.
- Amazon launched its first Brand Protection Report, which detailed Amazon’s anti-counterfeiting efforts and progress in driving counterfeit to zero in its store. In 2020, Amazon invested over \$700 million and employed more than 10,000 people to protect customers and sellers in its store and to stop bad actors before they list products for sale. Amazon’s verification processes prevented over 6 million attempts to create selling accounts before bad actors listed a single product for sale and seized over 2 million counterfeit products sent to its fulfillment centers before they were sent to a customer.

Entertainment

- Prime Video released new Amazon Original movies for customers worldwide, including *Tom Clancy’s Without Remorse*, starring Michael B. Jordan, and *The Tomorrow War*, starring Chris Pratt, both of which were the No. 1 streamed movie on their opening weekends. Prime members also enjoyed new and returning Amazon Original series and specials such as *THEM*, *Solos*, *The Underground Railroad*, *Panic*, *Flack*, *Mary J. Blige’s My Life*, and the *Prime Day Show*, as well as the seventh and final season of *Bosch*, the longest-running Amazon Original series to date. Additionally, Prime Video debuted over 20 local originals internationally, including *Dom* (Brazil), *Chivas: El Rebaño Sagrado* (Mexico), *Clarkson’s Farm* (UK), *La Leyenda de Sergio Ramos* (Spain), *Mixte* (France), and *Head Above Water* (Australia).
- Amazon earned 20 Emmy Award nominations, including Amazon Studios’ first-ever category nominations for a drama series (*The Boys*) and limited series (*The Underground Railroad*). Amazon also received two nominations in the TV movie category (*Uncle Frank* and *Sylvie’s Love*), along with nominations for writing (*All In*), choreography (*Savage X Fenty Show Vol. 2*), cinematography (*Small Axe*), visual effects (*Vikings*), interactive program (Welcome to the Blumhouse), and commercial (Michael B. Jordan’s Alexa ad).
- Prime Video announced streaming deals with sports leagues around the world, including: the National Football League (NFL) *Thursday Night Football* beginning in 2022, a year earlier than previously announced; 16 Women’s National Basketball Association (WNBA) games per season and the Commissioner’s Cup Championship Game; the Premier League in the UK; the Premiere channel to watch soccer in Brazil; and 300+ Ligue 1 soccer matches per season in France. Prime Video also streamed the first-ever French Open night matches and the Australian Swimming Trials globally.
- Peacock, NBCUniversal’s streaming service, is now available on Fire TV and Fire tablet devices. Customers can use Alexa to start watching Peacock by saying “Alexa, open Peacock.”
- Prime Video and IMDb TV announced an exclusive, multi-year licensing deal with Universal Filmed Entertainment Group (UFEG). Beginning in 2022, Prime Video will be an exclusive subscription video partner for UFEG’s slate of live-action films in the U.S., bringing films such as *Jurassic World: Dominion*, *The 355*, and *Ambulance* to Prime Video soon after theatrical release. With this deal, IMDb TV will be the first advertising-based streaming service to secure a major studio network window, which traditionally goes to broadcast or cable networks.
- IMDb TV announced 12 original series and development projects including a new half-hour drama from Dick Wolf, a home renovation project with Jeff Lewis, a docu-series with country superstar Luke Bryan, and a dramedy from Clea DuVall and Tegan and Sara Quin.
- Amazon Advertising announced that Amazon Streaming TV ads and Twitch now jointly reach an audience of 120 million monthly viewers across the U.S. creating more opportunities for brands to create engaging and interactive product discovery experiences across IMDb TV, Twitch, ad-supported apps on Fire TV, and *Thursday Night Football* on Prime Video.

- Amazon Games began a closed preview of multiplayer online PC game New World, during which it was one of the most watched games on Twitch, with hundreds of thousands of players and millions of total hours played. In addition, Amazon Games announced Lost Ark, a multiplayer action-role-playing game developed by Smilegate RPG that is scheduled to launch in North America and Europe later this year.

Amazon Devices and Services

- Amazon announced the all-new Echo Show 8 with a 13-megapixel wide-angle camera that digitally pans and zooms during video calls, and Echo Show 5 with an upgraded HD camera and more color options at a new lower price. The first Echo Show 5 Kids offers curated kid-friendly content, parental controls, a colorful design, and a one-year subscription to Amazon Kids+.
- Amazon announced a six-year collaboration with Ford to bring Alexa to millions of retail and commercial vehicles in North America. The deal is the industry's broadest roll-out of the Built-in Alexa hands-free experience, and includes complimentary access to key Alexa features for all new and existing customers for up to three years. Ford and Amazon will also work together to deliver new voice AI-enabled features and services, including the first custom Alexa skills for Ford commercial vehicles.
- Alexa added new custom voice options, including celebrity personalities Shaquille O'Neal and Melissa McCarthy.
- Using machine learning advancements in acoustic event detection, Amazon added the ability for Alexa to start a Routine after detecting specific sounds like a baby crying, dog barking, or a person coughing or snoring. For example, customers can set up a Routine that enables their Echo device to automatically play white noise when snoring is detected.
- Samsung Appliance Division announced that Alexa will work alongside Bixby, Samsung's personal voice assistant, on the Samsung Family Hub refrigerator. This announcement continues Amazon's commitment to providing customers with the choice and flexibility to interact with multiple voice agents on a single device, simultaneously.
- There are now more than 900,000 registered developers, brands, and device makers building with Alexa. At Alexa Live, Amazon's annual event for Alexa developers, Amazon introduced new ways for developers to increase revenue, engagement, and discovery. New innovations for developers include Paid Skills, Alexa Shopping Actions, Widgets, and the international expansion of In-Skill Purchasing.
- Amazon announced new features that make it easier for Alexa developers to build entertaining and useful customer experiences, including: Interactive Media Skill Components that shorten the time it takes for radio, podcast, and music providers to launch experiences on Alexa; Shared Activities Application Programming Interface (API) that enables developers to build multi-player gaming experiences; and Food Skill API that enables developers to quickly create high quality, food delivery, and pickup experiences.
- Ring announced general availability of the Floodlight Cam Wired Pro, equipped with new features like 3D Motion Detection, and introduced the Floodlight Cam Wired Plus, Ring's most affordable outdoor floodlight camera.

Amazon Web Services

- AWS announced significant customer momentum, with new commitments and migrations from customers across many major industries.
 - Telecom: **Swisscom**, Switzerland's leading telecommunications company and IT services provider, selected AWS as its preferred public cloud provider to power a wide range of core applications including its 5G network, enterprise resource planning, operational support system, business support system, and communications provisioning. **Bell Canada**, one of Canada's largest telecommunications companies, will use the breadth and depth of AWS technologies to create and scale new consumer and business applications and will bring AWS Wavelength to Canada.
 - Financial services: **BMO Financial Group**, one of North America's largest financial institutions, selected AWS as its preferred, strategic cloud provider to modernize its banking platforms and build digital financial services applications as part of the company's ongoing digital transformation. As part of its move to personalize services, the bank is using Amazon Connect—AWS's easy-to-use, scalable cloud contact center—to provide a seamless and more customer-centric experience for its call center, as well as to support remote working capabilities for employees. **Bancolombia**, Colombia's largest bank, selected AWS as its strategic cloud provider and plans to migrate its applications to AWS.
 - Automotive: **Ferrari S.p.A.**, a leading global manufacturer of luxury, high-performance sports cars, entered into an agreement with AWS to become its official cloud, machine learning, and artificial intelligence

provider. Together, AWS and Ferrari will accelerate the pace of innovation across the entire Ferrari organization, including their road cars department, GT Competitions, the Ferrari Challenge, and the Scuderia Ferrari FORMULA 1 (F1) team.

- Sports: The **National Hockey League** (NHL), the premier hockey league in the world, debuted two new advanced analytics during the 2021 Stanley Cup Playoffs—shot analytics and save analytics. These new stats powered by AWS appear as on-screen graphics and data visualizations during NHL games and give fans a better understanding and deeper appreciation of how their favorite players and teams perform during crucial moments.
- AWS plans to open infrastructure Regions in the United Arab Emirates (UAE) in the first half of 2022 and Israel in the first half of 2023. The new Regions will enable even more developers, startups, and enterprises as well as government, education, and nonprofits to run their applications and serve end-users from data centers located in the UAE and Israel. Globally, AWS has 81 Availability Zones across 25 geographic Regions, with plans to launch 21 more Availability Zones and seven more AWS Regions.
- AWS and Salesforce announced a significant expansion of their global strategic partnership, making it easier for customers to build and launch custom applications. The expanded partnership extends the technological capabilities of both providers, connecting Salesforce data and workflows natively into their solutions running on AWS, and making it easy for Salesforce developers to integrate AWS data and workflows into Salesforce applications. Salesforce will also embed AWS services for voice, video, artificial intelligence, and machine learning directly in new applications for sales, service, and industry vertical use cases. For example, customers can activate virtual call centers and empower high-velocity sales teams with Amazon Connect and AWS AI/ML services, pre-integrated into both Sales Cloud and Service Cloud.
- AWS announced the general availability of two industry-specific services. Amazon HealthLake is a HIPAA-eligible service for healthcare and life sciences organizations that uses machine learning to understand and extract meaningful medical information from unstructured data such as clinical observations, laboratory notes, and medical images. Amazon FinSpace is a purpose-built analytics service that reduces the time it takes financial services organizations to find, prepare, and analyze financial data from months to minutes.
- AWS announced the general availability of Amazon EBS io2 Block Express volumes, delivering storage area network (SAN) capabilities in the cloud for the first time. EBS Block Express is a next-generation storage architecture that provides the highest block storage performance without the cost or hassle of having to procure, scale, and maintain expensive on-premises SANs. With io2 volumes running on Block Express, customers get a 4x increase in performance, throughput, and capacity for existing io2 volumes, making it ideal for the most I/O-intensive, mission-critical deployments of Oracle, SAP HANA, Microsoft SQL Server, and SAS Analytics.
- AWS announced the general availability of three new container services. AWS App Runner is a fully managed container application service that makes it easier and faster for customers to build, deploy, and run containerized web applications and APIs with just a few clicks. AWS Proton is an application delivery service that makes it easier for customers to provision, deploy, and monitor the microservices that form the basis of modern container and serverless applications. Amazon Elastic Container Service (ECS) Anywhere is a new capability for Amazon ECS that enables customers to easily run, scale, secure, and manage container-based applications on-premises and at edge environments using the same APIs, cluster management, workload scheduling, monitoring, and deployment pipelines they use with Amazon ECS on AWS.
- AWS announced the general availability of Amazon DevOps Guru, a fully managed operations service that uses machine learning to make it easier for developers to improve application availability by automatically detecting operational issues and recommending specific actions for remediation. Informed by years of Amazon.com and AWS operational excellence, Amazon DevOps Guru applies machine learning to automatically analyze data like application metrics, logs, events, and traces for behaviors that deviate from normal operating patterns so developers can identify and remediate issues long before they impact customers.
- AWS announced the general availability of Amazon Location Service, a new service that makes it easier and more cost-effective for customers to add location functionality to their applications, without compromising on user privacy or data security. With Amazon Location Service, customers can embed location functionality in their applications using data from location-based service providers Esri and HERE Technologies to provide maps, points of interest, geocoding (converting location information to a point on a map), route planning, geofencing (creating virtual perimeters), or asset tracking.

Financial Guidance

The following forward-looking statements reflect Amazon.com's expectations as of July 29, 2021, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce, and cloud services, and the various factors detailed below. This guidance reflects our estimates as of July 29, 2021 regarding the impact of the COVID-19 pandemic on our operations, including those discussed above, and is highly dependent on numerous factors that we may not be able to predict or control, including: the duration and scope of the pandemic, including any recurrence; actions taken by governments, businesses, and individuals in response to the pandemic; the impact of the pandemic on global and regional economies and economic activity, workforce staffing and productivity, and our significant and continuing spending on employee safety measures; our ability to continue operations in affected areas; and consumer demand and spending patterns, as well as the effects on suppliers, creditors, and third-party sellers, all of which are uncertain. This guidance also assumes the impacts on consumer demand and spending patterns, including impacts due to concerns over the current economic outlook, will be in line with those experienced during the third quarter of 2021 to date, and the additional assumptions set forth below. However, it is not possible to determine the ultimate impact on our operations for the third quarter of 2021, or whether other currently unanticipated direct or indirect consequences of the pandemic are reasonably likely to materially affect our operations.

Third Quarter 2021 Guidance

- Net sales are expected to be between \$106.0 billion and \$112.0 billion, or to grow between 10% and 16% compared with third quarter 2020. This guidance anticipates a favorable impact of approximately 70 basis points from foreign exchange rates.
- Operating income is expected to be between \$2.5 billion and \$6.0 billion, compared with \$6.2 billion in third quarter 2020. This guidance assumes approximately \$1.0 billion of costs related to COVID-19.
- This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded.

A conference call will be webcast live today at 2:30 p.m. PT/5:30 p.m. ET, and will be available for at least three months at amazon.com/ir. This call will contain forward-looking statements and other material information regarding the Company's financial and operating results.

These forward-looking statements are inherently difficult to predict. Actual results could differ materially for a variety of reasons, including, in addition to the factors discussed above, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products and services sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income or other taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of claims, litigation, government investigations, and other proceedings, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, variability in demand, the degree to which the Company enters into, maintains, and develops commercial agreements, proposed and completed acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. Other risks and uncertainties include, among others, risks related to new products, services, and technologies, system interruptions, government regulation and taxation, and fraud. In addition, additional or unforeseen effects from the COVID-19 pandemic and the global economic climate may give rise to or amplify many of these risks. More information about factors that potentially could affect Amazon.com's financial results is included in Amazon.com's filings with the Securities and Exchange Commission ("SEC"), including its most recent Annual Report on Form 10-K and subsequent filings.

Our investor relations website is amazon.com/ir and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the SEC, corporate governance information (including our Code of Business Conduct and Ethics), and select press releases, which may contain material information about us, and you may subscribe to be notified of new information posted to this site.

About Amazon

Amazon is guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. Amazon strives to be Earth's Most Customer-Centric Company, Earth's Best Employer, and Earth's Safest Place to Work. Customer reviews, 1-Click shopping, personalized recommendations, Prime, Fulfillment by Amazon, AWS, Kindle Direct Publishing, Kindle, Career Choice, Fire tablets, Fire TV, Amazon Echo, Alexa, Just Walk Out technology, Amazon Studios, and The Climate Pledge are some of the things pioneered by Amazon. For more information, visit amazon.com/about and follow @AmazonNews.

AMAZON.COM, INC.
Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2020	2021	2020	2021	2020	2021
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	\$ 27,505	\$ 34,155	\$ 36,410	\$ 42,377	\$ 22,965	\$ 37,842
OPERATING ACTIVITIES:						
Net income	5,243	7,778	7,778	15,885	13,180	29,438
Adjustments to reconcile net income to net cash from operating activities:						
Depreciation and amortization of property and equipment and capitalized content costs, operating lease assets, and other	5,748	8,038	11,110	15,546	22,843	29,687
Stock-based compensation	2,601	3,591	4,358	5,897	7,977	10,747
Other operating expense (income), net	282	18	348	48	445	(372)
Other expense (income), net	(769)	(1,258)	(204)	(2,714)	(310)	(5,092)
Deferred income taxes	465	701	787	2,404	1,063	1,063
Changes in operating assets and liabilities:						
Inventories	(672)	(209)	720	(513)	(1,176)	(4,082)
Accounts receivable, net and other	(2,854)	(4,462)	(1,592)	(6,717)	(6,680)	(13,294)
Accounts payable	8,616	47	573	(8,219)	11,482	8,689
Accrued expenses and other	1,699	(1,685)	(1,063)	(5,745)	1,110	1,071
Unearned revenue	247	156	854	1,056	1,286	1,467
Net cash provided by (used in) operating activities	20,606	12,715	23,669	16,928	51,220	59,322
INVESTING ACTIVITIES:						
Purchases of property and equipment	(7,459)	(14,288)	(14,254)	(26,370)	(24,263)	(52,256)
Proceeds from property and equipment sales and incentives	844	1,300	2,212	2,195	4,895	5,080
Acquisitions, net of cash acquired, and other	(118)	(320)	(210)	(950)	(1,385)	(3,066)
Sales and maturities of marketable securities	8,138	13,213	19,764	31,039	34,641	61,512
Purchases of marketable securities	(19,209)	(21,985)	(34,210)	(36,660)	(49,196)	(74,929)
Net cash provided by (used in) investing activities	(17,804)	(22,080)	(26,698)	(30,746)	(35,308)	(63,659)
FINANCING ACTIVITIES:						
Proceeds from short-term debt, and other	2,433	1,176	3,050	3,102	4,145	6,848
Repayments of short-term debt, and other	(1,906)	(1,176)	(2,537)	(3,177)	(3,693)	(6,817)
Proceeds from long-term debt	9,918	18,516	9,994	18,627	10,699	19,158
Repayments of long-term debt	(205)	(41)	(241)	(80)	(1,305)	(1,392)
Principal repayments of finance leases	(2,817)	(2,804)	(5,417)	(6,210)	(10,504)	(11,435)
Principal repayments of financing obligations	(15)	(28)	(32)	(95)	(56)	(116)
Net cash provided by (used in) financing activities	7,408	15,643	4,817	12,167	(714)	6,246
Foreign currency effect on cash, cash equivalents, and restricted cash	127	234	(356)	(59)	(321)	916
Net increase (decrease) in cash, cash equivalents, and restricted cash	10,337	6,512	1,432	(1,710)	14,877	2,825
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$ 37,842	\$ 40,667	\$ 37,842	\$ 40,667	\$ 37,842	\$ 40,667
SUPPLEMENTAL CASH FLOW INFORMATION:						
Cash paid for interest on debt	\$ 139	\$ 179	\$ 430	\$ 455	\$ 872	\$ 942
Cash paid for operating leases	1,086	1,577	2,115	3,217	3,929	5,577
Cash paid for interest on finance leases	161	129	329	286	662	569
Cash paid for interest on financing obligations	21	35	43	68	77	127
Cash paid for income taxes, net of refunds	486	1,803	791	2,604	1,221	3,526
Assets acquired under operating leases	3,347	5,578	5,755	9,114	10,530	19,576
Property and equipment acquired under finance leases	3,155	1,642	5,321	3,709	13,110	9,976
Property and equipment acquired under build-to-suit arrangements	482	1,094	861	1,981	1,504	3,387

AMAZON.COM, INC.
Consolidated Statements of Operations
(in millions, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2021	2020	2021
Net product sales	\$ 50,244	\$ 58,004	\$ 92,085	\$ 115,495
Net service sales	38,668	55,076	72,279	106,103
Total net sales	88,912	113,080	164,364	221,598
Operating expenses:				
Cost of sales	52,660	64,176	96,917	126,579
Fulfillment	13,806	17,638	25,337	34,168
Technology and content	10,388	13,871	19,713	26,359
Marketing	4,345	7,524	9,173	13,731
General and administrative	1,580	2,158	3,032	4,145
Other operating expense (income), net	290	11	360	49
Total operating expenses	83,069	105,378	154,532	205,031
Operating income	5,843	7,702	9,832	16,567
Interest income	135	106	337	211
Interest expense	(403)	(435)	(805)	(834)
Other income (expense), net	646	1,261	240	2,958
Total non-operating income (expense)	378	932	(228)	2,335
Income before income taxes	6,221	8,634	9,604	18,902
Provision for income taxes	(984)	(868)	(1,729)	(3,024)
Equity-method investment activity, net of tax	6	12	(97)	7
Net income	\$ 5,243	\$ 7,778	\$ 7,778	\$ 15,885
Basic earnings per share	\$ 10.50	\$ 15.40	\$ 15.59	\$ 31.49
Diluted earnings per share	\$ 10.30	\$ 15.12	\$ 15.32	\$ 30.92
Weighted-average shares used in computation of earnings per share:				
Basic	500	505	499	505
Diluted	509	514	508	514

AMAZON.COM, INC.
Consolidated Statements of Comprehensive Income
(in millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2021	2020	2021
Net income	\$ 5,243	\$ 7,778	\$ 7,778	\$ 15,885
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax of \$(8), \$(17), \$13 and \$(4)	207	159	(668)	(215)
Net change in unrealized gains (losses) on available-for-sale debt securities:				
Unrealized gains (losses), net of tax of \$(73), \$(2), \$(61) and \$28	407	(6)	205	(104)
Reclassification adjustment for losses (gains) included in "Other income (expense), net," net of tax of \$0, \$4, \$0 and \$8	(6)	(12)	(6)	(26)
Net unrealized gains (losses) on available-for-sale debt securities	401	(18)	199	(130)
Total other comprehensive income (loss)	608	141	(469)	(345)
Comprehensive income	\$ 5,851	\$ 7,919	\$ 7,309	\$ 15,540

AMAZON.COM, INC.
Segment Information
(in millions)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2021	2020	2021
North America				
Net sales	\$ 55,436	\$ 67,550	\$ 101,563	\$ 131,916
Operating expenses	53,295	64,403	98,111	125,319
Operating income	<u>\$ 2,141</u>	<u>\$ 3,147</u>	<u>\$ 3,452</u>	<u>\$ 6,597</u>
International				
Net sales	\$ 22,668	\$ 30,721	\$ 41,774	\$ 61,370
Operating expenses	22,323	30,359	41,826	59,756
Operating income (loss)	<u>\$ 345</u>	<u>\$ 362</u>	<u>\$ (52)</u>	<u>\$ 1,614</u>
AWS				
Net sales	\$ 10,808	\$ 14,809	\$ 21,027	\$ 28,312
Operating expenses	7,451	10,616	14,595	19,956
Operating income	<u>\$ 3,357</u>	<u>\$ 4,193</u>	<u>\$ 6,432</u>	<u>\$ 8,356</u>
Consolidated				
Net sales	\$ 88,912	\$ 113,080	\$ 164,364	\$ 221,598
Operating expenses	83,069	105,378	154,532	205,031
Operating income	5,843	7,702	9,832	16,567
Total non-operating income (expense)	378	932	(228)	2,335
Provision for income taxes	(984)	(868)	(1,729)	(3,024)
Equity-method investment activity, net of tax	6	12	(97)	7
Net income	<u>\$ 5,243</u>	<u>\$ 7,778</u>	<u>\$ 7,778</u>	<u>\$ 15,885</u>
Segment Highlights:				
Y/Y net sales growth:				
North America	43 %	22 %	36 %	30 %
International	38	36	28	47
AWS	29	37	31	35
Consolidated	40	27	34	35
Net sales mix:				
North America	62 %	60 %	62 %	59 %
International	26	27	25	28
AWS	12	13	13	13
Consolidated	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

AMAZON.COM, INC.
Consolidated Balance Sheets
(in millions, except per share data)

	<u>December 31, 2020</u>	<u>June 30, 2021</u> (unaudited)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 42,122	\$ 40,380
Marketable securities	42,274	49,514
Inventories	23,795	24,119
Accounts receivable, net and other	24,542	26,835
Total current assets	132,733	140,848
Property and equipment, net	113,114	133,502
Operating leases	37,553	43,346
Goodwill	15,017	15,350
Other assets	22,778	27,273
Total assets	<u>\$ 321,195</u>	<u>\$ 360,319</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 72,539	\$ 66,090
Accrued expenses and other	44,138	41,007
Unearned revenue	9,708	10,695
Total current liabilities	126,385	117,792
Long-term lease liabilities	52,573	56,297
Long-term debt	31,816	50,279
Other long-term liabilities	17,017	21,148
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, \$0.01 par value:		
Authorized shares — 5,000		
Issued shares — 527 and 530		
Outstanding shares — 503 and 506	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	42,865	48,724
Accumulated other comprehensive income (loss)	(180)	(525)
Retained earnings	52,551	68,436
Total stockholders' equity	93,404	114,803
Total liabilities and stockholders' equity	<u>\$ 321,195</u>	<u>\$ 360,319</u>

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except per share data)
(unaudited)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Y/Y % Change
Cash Flows and Shares							
Operating cash flow -- trailing twelve months (TTM)	\$ 39,732	\$ 51,220	\$ 55,292	\$ 66,064	\$ 67,213	\$ 59,322	16 %
Operating cash flow -- TTM Y/Y growth	16 %	42 %	56 %	72 %	69 %	16 %	N/A
Purchases of property and equipment, net of proceeds from sales and incentives -- TTM	\$ 15,395	\$ 19,368	\$ 25,791	\$ 35,044	\$ 40,803	\$ 47,176	144 %
Principal repayments of finance leases -- TTM	\$ 10,013	\$ 10,504	\$ 11,054	\$ 10,642	\$ 11,448	\$ 11,435	9 %
Principal repayments of financing obligations -- TTM	\$ 43	\$ 56	\$ 68	\$ 53	\$ 103	\$ 116	106 %
Equipment acquired under finance leases -- TTM (1)	\$ 12,209	\$ 11,952	\$ 11,116	\$ 9,104	\$ 8,936	\$ 7,295	(39)%
Principal repayments of all other finance leases -- TTM (2)	\$ 407	\$ 415	\$ 413	\$ 427	\$ 525	\$ 550	33 %
Free cash flow -- TTM (3)	\$ 24,337	\$ 31,852	\$ 29,501	\$ 31,020	\$ 26,410	\$ 12,146	(62)%
Free cash flow less principal repayments of finance leases and financing obligations -- TTM (4)	\$ 14,281	\$ 21,292	\$ 18,379	\$ 20,325	\$ 14,859	\$ 595	(97)%
Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations -- TTM (5)	\$ 11,678	\$ 19,429	\$ 17,904	\$ 21,436	\$ 16,846	\$ 4,185	(78)%
Common shares and stock-based awards outstanding	513	517	518	518	519	522	1 %
Common shares outstanding	499	501	502	503	504	506	1 %
Stock-based awards outstanding	14	16	16	15	15	16	(3)%
Stock-based awards outstanding -- % of common shares outstanding	2.8 %	3.2 %	3.3 %	3.0 %	2.9 %	3.1 %	N/A
Results of Operations							
Worldwide (WW) net sales	\$ 75,452	\$ 88,912	\$ 96,145	\$ 125,555	\$ 108,518	\$ 113,080	27 %
WW net sales -- Y/Y growth, excluding F/X	27 %	41 %	36 %	42 %	41 %	24 %	N/A
WW net sales -- TTM	\$ 296,274	\$ 321,782	\$ 347,946	\$ 386,064	\$ 419,130	\$ 443,298	38 %
WW net sales -- TTM Y/Y growth, excluding F/X	23 %	28 %	31 %	37 %	40 %	36 %	N/A
Operating income	\$ 3,989	\$ 5,843	\$ 6,194	\$ 6,873	\$ 8,865	\$ 7,702	32 %
F/X impact -- favorable (unfavorable)	\$ 63	\$ 111	\$ 133	\$ 142	\$ 107	\$ 7	N/A
Operating income -- Y/Y growth (decline), excluding F/X	(11)%	86 %	92 %	74 %	120 %	32 %	N/A
Operating margin -- % of WW net sales	5.3 %	6.6 %	6.4 %	5.5 %	8.2 %	6.8 %	N/A
Operating income -- TTM	\$ 14,109	\$ 16,868	\$ 19,905	\$ 22,899	\$ 27,775	\$ 29,634	76 %
Operating income -- TTM Y/Y growth (decline), excluding F/X	(6)%	11 %	36 %	54 %	93 %	73 %	N/A
Operating margin -- TTM % of WW net sales	4.8 %	5.2 %	5.7 %	5.9 %	6.6 %	6.7 %	N/A
Net income	\$ 2,535	\$ 5,243	\$ 6,331	\$ 7,222	\$ 8,107	\$ 7,778	48 %
Net income per diluted share	\$ 5.01	\$ 10.30	\$ 12.37	\$ 14.09	\$ 15.79	\$ 15.12	47 %
Net income -- TTM	\$ 10,563	\$ 13,180	\$ 17,377	\$ 21,331	\$ 26,903	\$ 29,438	123 %
Net income per diluted share -- TTM	\$ 20.93	\$ 26.04	\$ 34.21	\$ 41.83	\$ 52.59	\$ 57.47	121 %

- (1) For the twelve months ended June 30, 2020 and 2021, this amount relates to equipment included in "Property and equipment acquired under finance leases" of \$13,110 million and \$9,976 million.
- (2) For the twelve months ended June 30, 2020 and 2021, this amount relates to property included in "Principal repayments of finance leases" of \$10,504 million and \$11,435 million.
- (3) Free cash flow is cash flow from operations reduced by "Purchases of property and equipment, net of proceeds from sales and incentives."
- (4) Free cash flow less principal repayments of finance leases and financing obligations is free cash flow reduced by "Principal repayments of finance leases" and "Principal repayments of financing obligations."
- (5) Free cash flow less equipment finance leases and principal repayments of all other finance leases and financing obligations is free cash flow reduced by equipment acquired under finance leases, which is included in "Property and equipment acquired under finance leases," principal repayments of all other finance lease liabilities, which is included in "Principal repayments of finance leases," and "Principal repayments of financing obligations."

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions)
(unaudited)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Y/Y % Change
Segments							
North America Segment:							
Net sales	\$ 46,127	\$ 55,436	\$ 59,373	\$ 75,346	\$ 64,366	\$ 67,550	22 %
Net sales -- Y/Y growth, excluding F/X	29 %	44 %	39 %	40 %	39 %	21 %	N/A
Net sales -- TTM	\$181,088	\$197,871	\$214,606	\$236,282	\$254,521	\$266,635	35 %
Operating income	\$ 1,312	\$ 2,141	\$ 2,252	\$ 2,946	\$ 3,450	\$ 3,147	47 %
F/X impact -- favorable (unfavorable)	\$ 5	\$ (4)	\$ —	\$ 7	\$ 8	\$ 34	N/A
Operating income -- Y/Y growth (decline), excluding F/X	(43)%	37 %	76 %	55 %	162 %	45 %	N/A
Operating margin -- % of North America net sales	2.8 %	3.9 %	3.8 %	3.9 %	5.4 %	4.7 %	N/A
Operating income -- TTM	\$ 6,057	\$ 6,634	\$ 7,604	\$ 8,651	\$ 10,789	\$ 11,795	78 %
Operating margin -- TTM % of North America net sales	3.4 %	3.4 %	3.5 %	3.7 %	4.2 %	4.4 %	N/A
International Segment:							
Net sales	\$ 19,106	\$ 22,668	\$ 25,171	\$ 37,467	\$ 30,649	\$ 30,721	36 %
Net sales -- Y/Y growth, excluding F/X	20 %	41 %	33 %	50 %	50 %	26 %	N/A
Net sales -- TTM	\$ 77,637	\$ 83,935	\$ 90,758	\$104,412	\$115,955	\$124,008	48 %
Operating income (loss)	\$ (398)	\$ 345	\$ 407	\$ 363	\$ 1,252	\$ 362	5 %
F/X impact -- favorable (unfavorable)	\$ (5)	\$ 32	\$ 152	\$ 232	\$ 270	\$ 199	N/A
Operating income/loss -- Y/Y growth (decline), excluding F/X	338 %	N/A	N/A	N/A	347 %	(53)%	N/A
Operating margin -- % of International net sales	(2.1)%	1.5 %	1.6 %	1.0 %	4.1 %	1.2 %	N/A
Operating income (loss) -- TTM	\$ (2,001)	\$ (1,055)	\$ (262)	\$ 717	\$ 2,367	\$ 2,384	N/A
Operating margin -- TTM % of International net sales	(2.6)%	(1.3)%	(0.3)%	0.7 %	2.0 %	1.9 %	N/A
AWS Segment:							
Net sales	\$ 10,219	\$ 10,808	\$ 11,601	\$ 12,742	\$ 13,503	\$ 14,809	37 %
Net sales -- Y/Y growth, excluding F/X	33 %	29 %	29 %	28 %	32 %	37 %	N/A
Net sales -- TTM	\$ 37,549	\$ 39,976	\$ 42,582	\$ 45,370	\$ 48,654	\$ 52,655	32 %
Operating income	\$ 3,075	\$ 3,357	\$ 3,535	\$ 3,564	\$ 4,163	\$ 4,193	25 %
F/X impact -- favorable (unfavorable)	\$ 63	\$ 83	\$ (20)	\$ (96)	\$ (171)	\$ (226)	N/A
Operating income -- Y/Y growth, excluding F/X	36 %	54 %	57 %	41 %	41 %	32 %	N/A
Operating margin -- % of AWS net sales	30.1 %	31.1 %	30.5 %	28.0 %	30.8 %	28.3 %	N/A
Operating income -- TTM	\$ 10,053	\$ 11,289	\$ 12,563	\$ 13,531	\$ 14,619	\$ 15,455	37 %
Operating margin -- TTM % of AWS net sales	26.8 %	28.2 %	29.5 %	29.8 %	30.0 %	29.4 %	N/A

AMAZON.COM, INC.
Supplemental Financial Information and Business Metrics
(in millions, except employee data)
(unaudited)

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Y/Y % Change
Net Sales							
Online stores (1)	\$ 36,652	\$ 45,896	\$ 48,350	\$ 66,451	\$ 52,901	\$ 53,157	16 %
Online stores -- Y/Y growth, excluding F/X	25 %	49 %	37 %	43 %	41 %	13 %	N/A
Physical stores (2)	\$ 4,640	\$ 3,774	\$ 3,788	\$ 4,022	\$ 3,920	\$ 4,198	11 %
Physical stores -- Y/Y growth, excluding F/X	8 %	(13)%	(10)%	(7)%	(16)%	10 %	N/A
Third-party seller services (3)	\$ 14,479	\$ 18,195	\$ 20,436	\$ 27,327	\$ 23,709	\$ 25,085	38 %
Third-party seller services -- Y/Y growth, excluding F/X	31 %	53 %	53 %	54 %	60 %	34 %	N/A
Subscription services (4)	\$ 5,556	\$ 6,018	\$ 6,572	\$ 7,061	\$ 7,580	\$ 7,917	32 %
Subscription services -- Y/Y growth, excluding F/X	29 %	30 %	32 %	34 %	34 %	28 %	N/A
AWS	\$ 10,219	\$ 10,808	\$ 11,601	\$ 12,742	\$ 13,503	\$ 14,809	37 %
AWS -- Y/Y growth, excluding F/X	33 %	29 %	29 %	28 %	32 %	37 %	N/A
Other (5)	\$ 3,906	\$ 4,221	\$ 5,398	\$ 7,952	\$ 6,905	\$ 7,914	87 %
Other -- Y/Y growth, excluding F/X	44 %	41 %	49 %	64 %	73 %	83 %	N/A
Stock-based Compensation Expense							
Cost of sales	\$ 41	\$ 76	\$ 75	\$ 91	\$ 90	\$ 145	91 %
Fulfillment	\$ 260	\$ 417	\$ 316	\$ 364	\$ 342	\$ 566	36 %
Technology and content	\$ 961	\$ 1,421	\$ 1,267	\$ 1,412	\$ 1,228	\$ 1,887	33 %
Marketing	\$ 332	\$ 456	\$ 446	\$ 476	\$ 456	\$ 691	52 %
General and administrative	\$ 163	\$ 231	\$ 184	\$ 219	\$ 190	\$ 302	31 %
Total stock-based compensation expense	\$ 1,757	\$ 2,601	\$ 2,288	\$ 2,562	\$ 2,306	\$ 3,591	38 %
Other							
WW shipping costs	\$ 10,936	\$ 13,652	\$ 15,063	\$ 21,465	\$ 17,162	\$ 17,747	30 %
WW shipping costs -- Y/Y growth	49 %	68 %	57 %	67 %	57 %	30 %	N/A
WW paid units -- Y/Y growth (6)	32 %	57 %	46 %	47 %	44 %	15 %	N/A
WW seller unit mix -- % of WW paid units (6)	52 %	53 %	54 %	55 %	55 %	56 %	N/A
Employees (full-time and part-time; excludes contractors & temporary personnel)	840,400	876,800	1,125,300	1,298,000	1,271,000	1,335,000	52 %
Employees (full-time and part-time; excludes contractors & temporary personnel) -- Y/Y growth	33 %	34 %	50 %	63 %	51 %	52 %	N/A

- (1) Includes product sales and digital media content where we record revenue gross. We leverage our retail infrastructure to offer a wide selection of consumable and durable goods that includes media products available in both a physical and digital format, such as books, videos, games, music, and software. These product sales include digital products sold on a transactional basis. Digital product subscriptions that provide unlimited viewing or usage rights are included in "Subscription services."
- (2) Includes product sales where our customers physically select items in a store. Sales to customers who order goods online for delivery or pickup at our physical stores are included in "Online stores."
- (3) Includes commissions and any related fulfillment and shipping fees, and other third-party seller services.
- (4) Includes annual and monthly fees associated with Amazon Prime memberships, as well as digital video, audiobook, digital music, e-book, and other non-AWS subscription services.
- (5) Primarily includes sales of advertising services, as well as sales related to our other service offerings.
- (6) Excludes the impact of Whole Foods Market.

**Amazon.com, Inc.
Certain Definitions**

Customer Accounts

- References to customers mean customer accounts established when a customer places an order through one of our stores. Customer accounts exclude certain customers, including customers associated with certain of our acquisitions, Amazon Payments customers, AWS customers, and the customers of select companies with whom we have a technology alliance or marketing and promotional relationship. Customers are considered active when they have placed an order during the preceding twelve-month period.

Seller Accounts

- References to sellers means seller accounts, which are established when a seller receives an order from a customer account. Sellers are considered active when they have received an order from a customer during the preceding twelve-month period.

AWS Customers

- References to AWS customers mean unique AWS customer accounts, which are unique customer account IDs that are eligible to use AWS services. This includes AWS accounts in the AWS free tier. Multiple users accessing AWS services via one account ID are counted as a single account. Customers are considered active when they have had AWS usage activity during the preceding one-month period.

Units

- References to units mean physical and digital units sold (net of returns and cancellations) by us and sellers in our stores as well as Amazon-owned items sold in other stores. Units sold are paid units and do not include units associated with AWS, certain acquisitions, certain subscriptions, rental businesses, or advertising businesses, or Amazon gift cards.


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COEX-8.113

More than 100 million Alexa devices have been sold

 techcrunch.com/2019/01/04/more-than-100-million-alexa-devices-have-been-sold/

Lucas Matney

[Lucas Matney @lucasmtny](#) / 3 years



More than 100 million devices with Amazon's Alexa assistant pre-installed have been sold, the company said Friday.

The new metric, revealed by Amazon devices SVP Dave Limp in an interview with [The Verge](#), showcases just how quickly the company has crammed the voice assistant into disparate hardware devices and shoved them out the door. The company did not distinguish further how many of these items were Amazon-built Echo devices and how many were designed by third-party OEMs.

| [The long list of new Alexa devices Amazon announced at its hardware event](#)

The company's vision of encapsulating Alexa in anything with a circuit board was evident at its September hardware event where it announced more than a dozen new devices, including a clock, a microwave and some redesigns of existing products like the Echo. In the interview, Limp shares that there are more than 150 Alexa-integrated hardware devices on the market, most of which shipped in 2018.

When it comes to the 100 million number, that metric seems impressive for a platform that still seems to have so much room left to mature, but it also shows how aggressive the company has had to be to keep up with Google Assistant and Siri, which obviously have significant reach on Android and iOS, respectively. Alexa seems to occupy a more exclusive smart home presence than Google, which has managed to ship quite a few of its Google Home devices, especially the Google Home Mini.

| Google Home Mini was the best-selling smart speaker in Q2

Amazon's low-cost Echo Dot similarly seems to be capturing the bulk of attention. The device was updated in September with a new design and a louder speaker. The company is also seeing success with hardware it hasn't released yet; the company revealed that they've had more than 1 million people sign up for an invite to buy an Alexa Auto device ahead of its launch.

COEX-8.114

Amazon sees Alexa devices more than double in just one year

At CES, the e-retailer boasts of hundreds of millions of voice-enabled devices.



Ben Fox Rubin  Jan. 6, 2020 6:00 a.m. PT



8



At Amazon's 2019 CES booth.

Sarah Tew/CNET

This story is part of [CES](#), where our editors will bring you the latest news and the hottest gadgets of the entirely virtual CES 2021.

It took [Amazon](#) four years to populate the world with [100 million Alexa-powered devices](#). It took the company just one more year to more than double that number.

The e-commerce titan announced Monday that there are now "hundreds of millions of Alexa-enabled devices" in customers' hands worldwide, a massive increase from the 100 million it announced last January. Both

figures include Amazon's own lines of Echo speakers, Fire [tablets](#) and [Fire TV](#) streamers, as well as third-party devices like wearables, TVs and computers, showing how much [Alexa's](#) world has broadened.

Smart-home engagement with Alexa nearly doubled, too, with people using the voice assistant for [smart home](#) controls hundreds of millions of times every week.

The company revealed these new milestones at the start of [CES 2020](#), the biggest tech show in the world, where it will present a slew of new partnerships in cars, [TVs](#) and [connected homes](#) to keep up Alexa's breakneck growth.

"It's been a very, very big year in terms of momentum for Alexa-enabled devices out there," David Limp, who leads Amazon's hardware development, told CNET late last month. "If somebody had said five years ago that we'd be able to say those kinds of things about the business, I would have been amazed."



Amazon hardware chief David Limp

Tyler Lizenby/CNET

In its typically secretive fashion, Amazon avoided offering more specific growth figures. Still, the numbers show how huge Alexa has become over half a decade, with the digital helper becoming by far the most popular smart-home controller in the US. Following such significant growth so quickly, Amazon will now have to figure out how to stay ahead of its many competitors -- [Google](#), [Apple](#), [Samsung](#) and others -- and continue posting such big growth numbers for its voice assistant.

[Google](#), for instance, has ramped up its presence at [CES](#) over the last few years, primarily to hammer home the benefits of its own Google Assistant.

With Alexa already integrated into more than 100,000 [smart home](#) [products](#) from over 9,500 brands -- another big milestone the company unveiled last month -- you'd reasonably wonder what else is left, aside from a smart cheese grater, for Alexa to talk to.

“

Every time that privacy comes up, I think it's our responsibility to continue to move the ball forward.

David Limp, Amazon's hardware chief

Patrick Moorhead, an analyst for Moor Insights & Strategy, said Amazon is likely just getting started.

"I believe Amazon has made good progress getting itself into 100,000 different products," he wrote in an email, "but the opportunity is likely 10x that over ten years."

Consumer privacy and Ring controversies

One issue that may stifle Alexa's popularity is privacy. Amazon and other major voice developers faced mounting criticism last year for failing to let their users know they use human reviewers to listen to a small number of user recordings. The practice is widespread and needed to improve voice services. But, in some cases, contractors working for these companies heard recordings that included people having sex, or audio with private banking or medical information.

Amazon, Google and Apple tightened their privacy settings following the uproar. Limp said last month that he plans to stay focused on consumers' privacy needs.

"Every time that privacy comes up, I think it's our responsibility to continue to move the ball forward," he said. "We're never going to stop. As long as we think it's important and we hear from customers, we're going to continue inventing new ways to make these products, obviously more delightful, but also just more secure across the board."

Watch this: CES 2020 features unexpected exhibitors

▶
1:22

He noted that sales of Amazon's Alexa-enabled devices haven't slowed down amid the human reviewer controversy but added that he had no intention of letting the problem fester enough to let that happen.

Ring, Amazon's video doorbell company, has also faced criticism for security lapses and its partnerships with local police departments. Asked if he had second thoughts about purchasing Ring, Limp quickly responded: "No, no, in fact the opposite is true."

He said Ring has been a hugely successful acquisition for Amazon and he is excited about Ring's future products. Limp added that he and Ring's team take customer trust very seriously, so they'll continue to develop new ways to make Ring products "even safer."

Pointing to continued strong sales of Alexa devices, Moorhead argued that Amazon has done enough so far to address most customers' privacy and security needs. But, he added, that "privacy and security is a constant moving target so what worked in 2019 may not work perfectly in the future." So he expects the company to keep adding new features to manage that changing dynamic.

Coming up at CES 2020

Owing to Amazon's bigger presence at CES, the company will have three different exhibits at the show, including an Alexa devices exhibit at the Venetian, a cars-focused exhibit at the Las Vegas Convention Center and a Ring booth at the Sands Expo Convention Center.

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CNET's 20 favorite products of CES 2020

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Amazon also said Monday that several TV makers and smart-home developers will announce new devices that support Alexa at CES.

Beyond this week's show, Limp said even more Alexa products will be coming from Amazon, too, from its new "Day 1 Edition" lineup that includes more experimental and small-batch devices, like Echo Frames glasses and the Echo Loop ring.

"We will do more," Limp said of Day 1 Edition product. "Whether that is small numbers or large numbers, I think that that is up to customers more than us.

"We do have lots of fun ideas that sit on the lab bench," he continued, "and that we get pretty far along on internal betas, but we've had limitations on how we could ship them in the past. This is one way that we're trying to have some of those products see the light of day."

A small sampling of the many Alexa-powered devices Amazon showed off at CES last year.

Sarah Tew/CNET

Asked if an Alexa-powered robot -- a concept that's been rumored since last year -- may soon arrive, Limp declined to say much.

"I do believe that robotics are interesting," Limp said. "We utilize robotics in large aspects of what we do as a company and I think that over time robotics will be important for consumers as well."

That means there likely won't be an Amazon-made consumer robot coming out at CES 2020, but as Amazon crams Alexa into even more stuff, perhaps there's a chance it will arrive along with that cheese grater at CES 2021.

Amazon Echo Buds



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COEX-8.115

Nearly 70% of US smart speaker owners use Amazon Echo devices

techcrunch.com/2020/02/10/nearly-70-of-u-s-smart-speaker-owners-use-amazon-echo-devices/

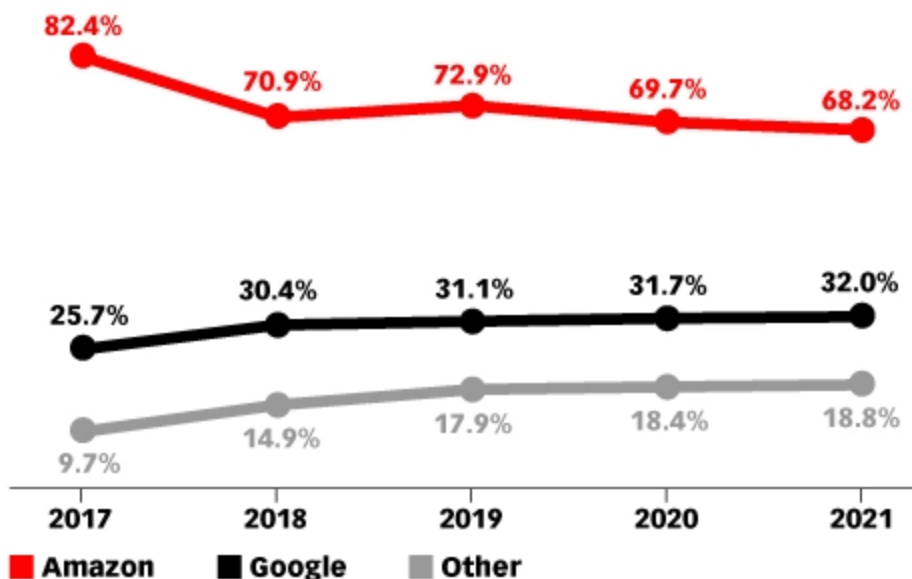
Sarah Perez

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Amazon's dominant position in the U.S. smart speaker market will continue through this year and the next, with rivals like Google and Apple only making slight dents in Amazon Echo market share, according to a report published today by [eMarketer](#). The analyst firm estimates Amazon will easily hold onto its top spot through 2021, when nearly 70% of total U.S. smart speaker owners will continue to use an Amazon Echo device.

Specifically, 69.7% of U.S. smart speaker users will use an Echo in 2020, down slightly from 72.9% last year. In 2021, the number will drop a bit further, with then 68.2% of U.S. smart speaker owners using an Echo device. Meanwhile, 31.7% of smart speaker owners in 2020 will use a Google-branded device, and only 18.4% will use some other brand — like Apple HomePod, Sonos One or Harmon Kardon Invoke, for example. (The percentages total more than 100% because some smart speaker owners do own more than one brand, the report notes.)

US Smart Speaker Users, by Brand, 2017-2021*% of smart speaker users*

Note: individuals of any age who use a smart speaker at least once per month; users of each device are not mutually exclusive with speaker users of different brands

Source: eMarketer, Nov 2019

252417

www.eMarketer.com

These figures indicate the challenges ahead for Apple HomePod, Google Home and others in claiming a significant portion of the U.S. smart speaker market.

After all, once a consumer buys their first device, they're not as likely to change brands for their next one. Instead, the first device gives the company — like Amazon — a foot in the door to prove their smart speaker's usefulness. When the customer is readying to expand by adding a new device for the bedroom or kitchen, perhaps, they typically return to buy the same brand again as devices are designed to work together across the home.

That's not always the case, but it's more often than not.

Amazon is keenly aware of this trend and has been practically giving away its entry-level device, the Echo Dot. The low-end device is currently selling on the retailer's site for \$29.99, and is often found on sale. During Amazon's annual Prime Day sale, the retailer slashes Alexa device prices even further — making the Echo Dot a Prime Day bestseller for several years now.

Outside the U.S., however, Amazon's Echo may not have the same advantages, the report notes.

The Echo is less competitive in some markets because it supports fewer non-English languages than major competitors, like the Google Home.

That said, the U.S. remains a key market for smart speaker adoption, so Amazon's strengths here should not be discounted.

"Since Amazon first introduced the Echo, it has built a convincing lead in the U.S. and continues to beat back challenges from top competitors," said Victoria Petrock, a principal analyst at eMarketer. "We had previously expected Google and Apple to make more inroads in this market, but Amazon has remained aggressive. By offering affordable devices and building out the number of Alexa skills, the company has maintained Echo's appeal," she added.

The firm also said it expects the number of U.S. smart speaker users to continue to rise over the next several years, but growth will slow. Currently, 28.9% of internet users also use a smart speaker. Next year, that number is expected to reach 30.5%.

This year, the number of smart speaker users in the U.S. will grow by 13.7% to reach 83.1 million. But in 2021, growth will dip into the single digits, eMarketer forecasts.

That doesn't necessarily mean those users aren't using voice assistants, however. Instead, smart speakers will only be one way in which consumers interact with technology via voice. Over time, consumers will also begin to use voice assistant built into other devices, like vehicles, appliances, other smart home devices and more. And let's not forget that both Google and Apple offer smartphone voice assistants — Google Assistant and Siri, respectively — whose usage numbers dwarf Echo adoption.

There are some half a billion plus Siri-capable devices out there, and half a billion Google Assistant users. In other words, people interacting with a voice assistant today are probably doing it on their iOS or Android phone, not by talking to Alexa. But on the flip side, it's fairly remarkable that Amazon was able to create a new market for its Echo speakers, given the massive lead in voice assistants held by its rivals.

The eMarketer report is not the first to estimate Amazon has claimed a 70% market share in the smart speaker market — a report last year by CIRP also said the same.

COEX-8.116
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COEX-8.117

Oct 18, 2016, 11:00am EDT

Amazon Is Actually Losing Money From Its New Music Service



Bobby Owsinski Senior Contributor ⓘ
[Hollywood & Entertainment](#)

⌚ This article is more than 4 years old.



Photographer: Luke MacGregor/Bloomberg

The major record labels are adamant about keeping the price of a music streaming subscription at \$9.99 per month, regardless of the platform, so it was a great surprise last week when Amazon announced that its new Amazon Music Unlimited service was priced at \$7.99 per month for Amazon

Prime members. It turns out that the labels haven't softened their pricing stance at all, as [Music Business Worldwide](#) reported that Amazon will actually end up subsidizing the other two bucks when all is said and done.

It turns out that Amazon is expected to be paying out from between \$5.50 to \$6 each month to record labels and artists for each \$7.99 Prime subscriber, and an additional \$1.50 a month to publishers and songwriters. When you figure in administration, marketing, staff and infrastructure costs, that means that most if not all of that monthly fee has pretty much been eaten up.

So what's the company's end game? Amazon might be pulling an Apple here, losing money on software in order to sell more hardware and make a much higher profit. While Echo and Dot seem to be hits and are the leading products in this new category, there very well may be more hardware devices from the company on the way. Using music streaming as a loss-leader to make it's hardware more attractive has been tried by many companies though, particularly in the mobile space, and only Apple has been wildly successful with the strategy.

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The price subsidy could also be another way to increase Prime memberships. While Amazon doesn't publish the actual number of subscriptions, insiders have reported it to be around 60 million, and when you consider that each one is paying \$99 a year for the privilege, you can see why anything that might increase that number could be valuable. Still, it seems like a stretch to think that the average music user will say to himself, "I really want to subscribe to this music service because of this great price. Let me pay just \$99 more so I can buy in."

In the end, I think Music Unlimited's pricing structure comes down to a little of column A and a little of column B, with most of the emphasis on selling more hardware. Almost every service looks great at launch when

things look their freshest and rosiest. Check back after the first of the year to see what the reality really is.

BETA

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Bobby Owsinski

After working many years in the music business as a producer, engineer and musician, I decided that writing about it is just as much fun and the hours are more regular...

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Amazon's Echo and Alexa could add \$11 billion in revenue by 2020

Eugene Kim Sep 23, 2016, 2:58 PM



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Amazon Echo AP/Jeff Chiu

Amazon's voice-controlled speaker Echo and the Alexa software that powers the device could be on the brink of opening up another huge business opportunity.

According to a note by investment firm Mizuho, the revenue generated by the two services could exceed \$11 billion by 2020. The firm reckons that \$4 billion of that would come from the sales of the Echo device itself (including the Tap and Dot),

while the other \$7 billion would come from all the commerce transactions derived from those devices to Amazon.com.

The Echo is Amazon's voice-controlled device that lets you play music, read audio books, or even order things on Amazon.com by simply talking to it. The secret sauce behind the device is the Alexa virtual assistant, which has the potential to be incorporated into a broad variety of other products as well, such as cars or refrigerators.

"These estimates are very early, but we believe that the Alexa-enabled Echo and its family of product, coupled with transactions and apps, could provide a large revenue opportunity, and make Amazon a pivotal part of peoples' everyday lives," Mizuho's analyst Neil Doshi writes.

Doshi estimates there will be about 8.6 million total Echo devices sold this year, but that would jump to 41.3 million units sold in 2020 alone, bringing in roughly \$4 billion in device revenue that year. In aggregate, Amazon would be selling roughly 113 million total Echo devices over the next 4 years, and assuming half of those devices are actually used to buy products on Amazon, and they buy \$25 worth of products 5 times a year on average, the transaction revenue comes in at roughly \$7 billion, according to the note.

Mizuho

Mizuho isn't the only bullish investment firm on the Echo and Alexa. RBC Capital wrote in a note last week that it sees Alexa as a potential "fourth pillar" for Amazon, alongside its e-commerce retail, 3rd party marketplace, and AWS cloud computing service.

One big reason RBC believes so is Alexa's power to stimulate more spending on Amazon.com. According to its own survey, 26% of Alexa-powered device owners said they made purchases "very" or "somewhat" often through voice shopping, an impressive number given Alexa just rose to prominence over the past 12 to 18 months.



"It is far too early to know whether Alexa can be Amazon's fourth pillar, but the early results look very promising," it wrote.

RBC Capital

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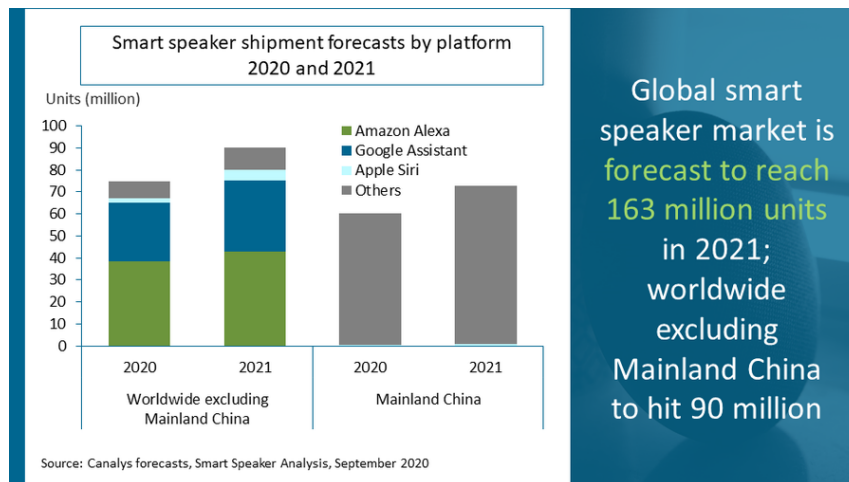
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Global smart speaker market 2021 forecast

Shanghai (China), Bengaluru (India), Singapore, Reading (UK) and Portland (US) – Thursday, 22 October 2020

Global smart speaker market set to reach 163 million units in 2021

The latest Canalys forecast expects the global smart speaker market, including smart displays, to reach 163 million units in 2021, a growth of 21%. In 2020, Mainland China, which has the COVID-19 pandemic under control, will lead, growing 16%, while the rest of the market is expected to grow 3% as countries continue to battle the coronavirus. With demand for stay-home entertainment expected to increase, global platform vendors have released new smart speakers and displays, ensuring value and availability. This is critical ahead of the 2020 year-end shopping season, which will be unlike previous years, due to the pandemic. The global smart speaker market is expected to emerge stronger in 2021, with markets outside China expected to recover and contribute a larger portion of the annual growth.



Global smart speaker market is forecast to reach 163 million units in 2021; worldwide excluding Mainland China to hit 90 million

Smart speakers continue to improve despite the simplicity of the form factor. "The challenge is to bring noticeable improvements and innovation with minimal increase in costs," said Canalys Research Manager Jason Low. "Amazon and Google are striving to spark interest by breaking the speaker mould, each taking different design routes aimed to obtain sound quality improvements, not only with physical design changes, but also introducing additional elements of computational audio. In the future, a customer's listening experience will be increasingly adaptable and driven by AI."

Apple revealed the HomePod mini at its October launch event, mounting a challenge against the incumbents. "Apple still has much to prove to attract users, especially as the HomePod mini is up against other new US\$99 devices, which are larger in size and with assistants perceived to be smarter," said Low. "Apple must deliver its acclaimed premium user experience by leveraging its proprietary ecosystem of hardware, software and services. The HomePod mini would give its competitors a run for their money if the sound quality proves to be better despite its smaller size, and if the UWB and Intercom features work seamlessly for users."

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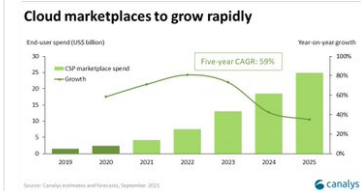
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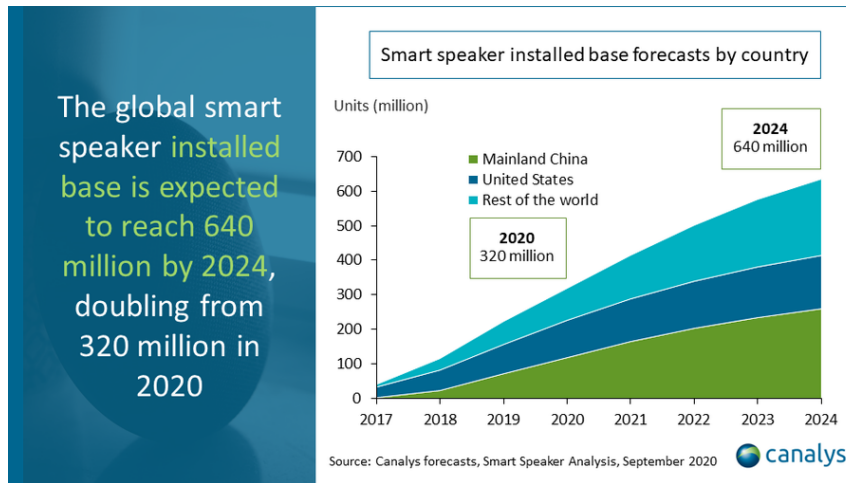
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Notably, Apple is the only global platform vendor selling hardware and services in China. "The US\$99 (approximately CYN700) price segment is pretty much a no-mans-land in China, yet adequate to appeal to Apple's user-base. Apple should take this opportunity to drive the uptake of its music and other services consumed at home," said Canalys Research Analyst Cynthia Chen.

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The global smart speaker installed base is forecast to reach 640 million by 2024, paving the way for the ambient computing paradigm shift. "From the speed of response, to the skills and real-world tasks smart assistants can help complete, the job of building great hardware and smart assistant features falls to platform vendors with the resources and business models to support such endeavours. However, the smart assistant ecosystem needs to be supported by third-party developers, hardware vendors, and service providers. It is crucial for ecosystem partners to pay close attention to what platform vendors achieve, while having a keen sense to uncover new use cases as users shift habits amid the ongoing pandemic," added Low.

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Global Smart Speaker market shipments hit 154 million in 2020 – up 58% YoY

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Smart speakers are one of the fastest growing segments of the smart home market. Although Amazon is the global leader today, brands like Alibaba, Baidu, Xiaomi are gaining momentum, while Apple is seeing strong growth due to HomePod Mini.

Omdia view

The global smart speaker market grew by 58% in 2020 accounting for 154 million units shipped over the past 12 months, according to Omdia's latest [Smart Speakers 2020](#) report. The total smart speaker revenue is now up to \$3.2bn globally.

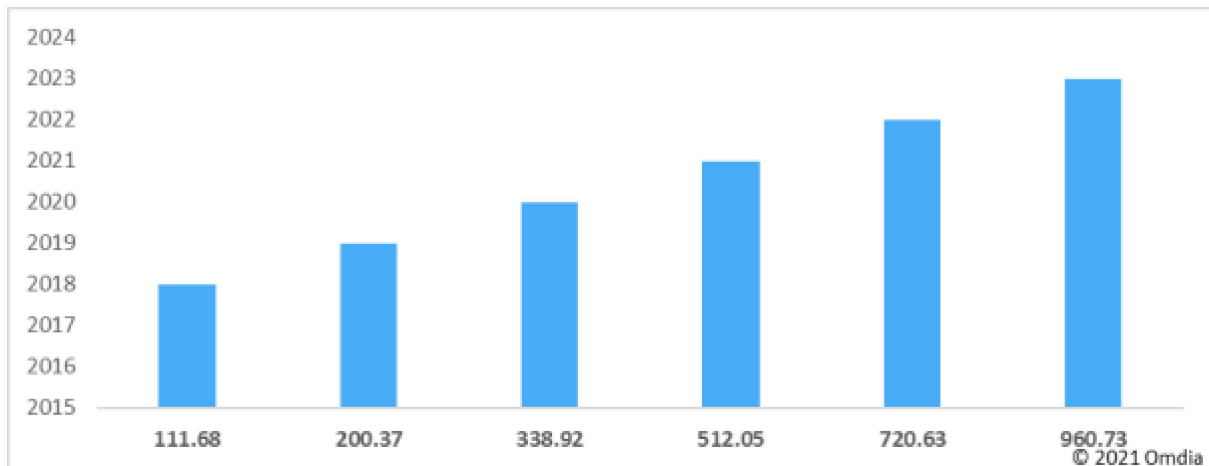
North America shipments grew by 71%. YoY to 72.9 million device shipments, the highest growth in the market since 2017. The Asian market also had significant growth increasing by 48% YoY to reach 64 million shipments, while Europe accounted for almost 16million devices.

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The global install base for Smart speakers rose to 338.9 million devices in 2020 up 138 million units from 2019 and is forecasted to rise to 512 million devices in 2021. Sales revenue for smart speakers hit \$11.3bn in 2020 and is expected to grow to \$14.7bn in 2021.

The rise in video chatting has spurred growth in smart speakers with a display. Globally in 2020, Omdia estimated about 1 out of 5 (18.8%) smart speakers shipped had a display, up from 11.5% in 2019.

Global Installed Base Forecast (M)



Source: Omdia

Despite the fierce competition among smart speaker brands, industry leaders are joining forces to increase AI capabilities and overall smart home and smart speaker market penetration. In the United States, Apple, Google, and Amazon, among many others, are joining forces for Connected Home Over IP (CHIP). In South Korea, there are two groups of companies looking to compete in AI. The first group consists of SK Telecom, Samsung and Kakao. The second group includes KT, LG, and LG Uplus. In June 2020, the latter group of companies announced a platform called “AI One Team”.

Blake Kozak, senior principal analyst at Omdia commented : “Since the pandemic began, consumers have seen the biggest change in their use of group video calling (Zoom, Teams), watching online videos and social networks.”

“Listening to online music was also a big change for consumers while an increase in use of AI assistants (Siri, Alexa) was mixed. Smart speaker brands have benefited from these emerging trends by partnering with Zoom and other video chat services.”

Appendix

Author

Blake Kozak, Sr. Principal Analyst, Smart Home | Components and Devices

askananalyst@omdia.com

The Analyst Team



Blake Kozak

SENIOR PRINCIPAL ANALYST, SMART HOME

With 10 years of experience in consumer electronics and security markets, Blake Kozak delivers market forecasts and strategic analysis of smart home ecosystems, connecting the dots between device manufacturers, services, and adjacent markets.

At Omdia, Blake produces reports and insights that encompass critical market signifiers, such as industry revenue intake, the market's performance over time, and historical and new business models, and opportunities for expansion and growth. Prior to joining Omdia (formerly IHS Markit), Blake had been the author of numerous syndicated reports including intruder alarms, electronic physical access control, access control as a service (ACaaS), perimeter security, and residential security. Blake is also a regular speaker at industry events.

Before joining Omdia, Blake managed the access control system of Ohio University and interned with a US congressional leader in Washington, DC.

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Amazon Music Joins Podcast Fray --- Service looks to draw listeners with 70,000 titles and its Echo speaker features

The Wall Street Journal

September 17, 2020 Thursday

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THE WALL STREET JOURNAL.
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Section: Pg. B1

Length: 741 words

Byline: By Anne Steele

Body

Amazon.com Inc.'s music service launched into podcasting Wednesday, becoming the latest entrant to the rapidly expanding medium.

While the company is joining a competitive field, executives said the service can tack differently from competitors -- as it has with music streaming -- and bring in new podcast listeners, particularly through its voice-activated home speakers.

Amazon has some catching up to do with Apple Inc.'s Apple Podcasts, where most podcast listeners tune in free, and Spotify Technology SA, which has been investing hundreds of millions of dollars in the format and sparked an arms race for programming and talent.

Amazon Music is the third-largest music service by subscriptions, behind Spotify and Apple Music, and has drawn an older listening base across the U.S., in part through the help of its Prime subscription service and Echo speakers.

"Despite all the hype and growth, podcasting is still at the early stages of mainstream adoption," said Steve Boom, vice president of Amazon Music. "Our entry will grow the pie for everybody and introduce new groups of listeners just like we do with music streaming. We think the timing is perfect."

Podcasts will be available free of charge across Amazon Music's subscription and ad-supported tiers.

When Echo device users ask Alexa to play a podcast, it will draw from Amazon Music's catalog as the default if the podcast is available. Amazon Music listeners will be able to make the transition between mobile-phone-app, in-car and smart-speaker listening with the service picking up a podcast where the user left off.

Amazon Music Joins Podcast Fray --- Service looks to draw listeners with 70,000 titles and its Echo speaker features

Amazon Music has more than 70,000 podcasts to start. While that library is significantly smaller than Apple's over 1 million podcasts or Spotify's 1.5 million, Amazon is launching with popular titles, including "Crime Junkie," "What a Day," "Radiolab," "Revisionist History," "Planet Money" and "Stuff You Should Know."

Early next year Amazon is to become the exclusive home of "Disgraceland," which is currently available on various services. It melds music and true crime, examining the behavior of the Rolling Stones, the late Tupac Shakur and other major artists.

Jake Brennan, the show's host, said the deal will give him the resources to put out more episodes on a consistent basis -- something he said listeners have been asking for -- and potentially secure the rights to use music that is discussed on the show.

"To me this seems very similar to the advent of cable and now the streaming wars," he said.

Amazon also has lined up new original, exclusive shows hosted by DJ Khaled, Becky G, Will Smith and Dan Patrick. In "The First One," DJ Khaled will interview other artists about their breakthrough hits and the stories behind them. Like Spotify, Amazon Music will collect podcast revenue only on ads that run on its original and exclusive content.

At first, the company won't share listener data with podcasters, but Mr. Boom said he expects it will eventually, similar to the way Amazon Music began offering an analytics platform for artists earlier this year. Lack of reliable listener data has made it difficult for podcasters to maximize ad income because they can't tell advertisers who is listening to a podcast or for how long.

The addition of podcasts comes less than a month after the music service integrated with Amazon's Twitch video-streaming platform to allow artists to live-stream within the app. A video version of Becky G's podcast, "En La Sala," will also be available on Twitch.

"What you're seeing is the evolution of what it means to be a streaming service," said Mr. Boom. "Everyone's becoming more than just a music service."

Companies from iHeartMedia Inc. to Sirius XM Holdings Inc. recently placed bets on podcasting. The format has developed from its niche beginnings in true-crime narratives and pop-culture dissections to become a source of news and political discourse that is increasingly attracting talent from Joe Rogan to Megyn Kelly.

U.S. ad revenue from podcasts rose an estimated 42% to \$678.7 million last year, according to the Interactive Advertising Bureau, and is projected to rise to \$863.4 million this year and exceed \$1 billion by 2021.

Mr. Boom said there is room to grow in podcasting despite the entrenched competition.

"When you look at the history of who was dominant in a market when it was really small," he said, "I don't think that's relevant for the future."

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Amazon Takes On Spotify In Podcasting

F forbes.com/sites/billrosenblatt/2020/09/18/amazon-takes-on-spotify-in-podcasting/

Bill Rosenblatt

September 18, 2020

Sep 18, 2020,01:08pm EDT|



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This week Amazon AMZN announced the launch of a podcast service integrated with Amazon Music AMZN , along with a slate of exclusive celebrity-driven shows. After nipping around the edges of podcasting in its Audible audiobook subsidiary for a few years, Amazon is jumping into the market—with its competitive sights set squarely on Spotify. Amazon's emulation of Spotify's podcast model has implications for the future of podcasting as a business.

Spotify started moving into podcasts about five years ago. This was the first phase of a campaign to diversify its business beyond music, reducing its exposure to competition from much larger companies (Amazon, Apple AAPL , Google GOOGL) that don't depend on music as a single "input good." Spotify has spent hundreds of millions of dollars on podcast publishers and publishing tools, and it is making deals with more and more individual podcasters for exclusive access through Spotify.

The strategy is paying off for Spotify: it is now at least the number two podcast listening app, behind Apple Podcasts, and some estimates put it at number one. Spotify has gone to great lengths not only to incorporate podcasts into its user interface (beyond including them in search results) but also to integrate them into recommendations, playlists, and so on. In contrast, Apple maintains separate apps for music and podcasts. Google includes podcasts in Google Play Music, but only at a superficial level, and Google is phasing Google Play Music out anyway in favor of YouTube Music.

Amazon's new podcast feature follows Spotify's strategy of bundling podcasts with its subscription music service and cross-pollinating the podcast and music audiences in a single app. Podcasts are available at all tiers of service in Amazon Music, including the free tier (playlists and radio stations with advertising), Amazon Prime Music (limited catalog of songs available on demand for Amazon Prime members at no additional charge), Amazon Music Unlimited (full catalog of on-demand music, competes with Spotify Premium), and Amazon Music HD (enhanced audio quality at a higher price point).

Podcasts are integrated into the Amazon Music app's search engine and at the top levels of navigation and recommendations; Amazon has yet to determine how to intermix podcasts with music in playlists. The app also has features similar to the Google Podcasts app's integration with Google Assistant for enabling users to start listening to a podcast on one device and continue from the same place on another device.

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Amazon is launching a handful of original exclusive podcasts, focused on music and entertainment, from celebrities such as DJ Khaled and Will Smith. It is also getting an exclusive deal to distribute the popular music-meets-true-crime podcast Disgraceland.

Amazon Music's tight integration with Alexa devices, and its lower price points for Amazon Prime subscribers and Alexa device owners, have helped its user base grow fast. The Infinite Dial market research study from Edison Research and Triton Digital, for example, shows that within the past year Amazon Music overtook Apple Music as the no. 2 most popular paid subscription music service in the U.S., behind Spotify.

From that perspective, it's significant for the podcast business in general that Amazon and Spotify are adopting the same model of bundling podcasts into a paid music subscription service and including a growing number of exclusive podcasts in that service. This could come to be one of the dominant revenue models in podcasting.

Revenue in podcasting is currently in a state of flux. Currently there are two primary revenue models: advertising and crowdfunding. The Interactive Advertising Bureau measured 2019 podcast ad revenue as \$708 million, up 48% from 2018, and predicts 2020 revenue to approach \$1 billion despite the effects of the pandemic; these figures are higher than last year's projections. Podcast crowdfunding, such as through Patreon, likely brings in an order of magnitude less than advertising.

The dominance of ads in podcasting in the U.S. market (in contrast to elsewhere) is due to the outsized influence of two podcast publishers that dominate the listenership rankings: iHeartRadio and NPR. Both have long histories of funding through advertising and corporate sponsorships, which they are leveraging in the podcast space. Their influence over podcasting in the U.S. has been so pervasive that there has been little space for other revenue models—such as Luminary's paid-subscription model—to take hold.

With Spotify and Amazon pursuing the same music-bundling model, that could change. Together they will set expectations among a large audience that podcasts, including some high-profile exclusive shows, will be available as part of paid subscriptions to music—or, perhaps, audio content—services. (Spotify earns ad revenue from podcasts it owns or licenses exclusively; Amazon expects to do the same.)

The logical next step in solidifying this value proposition is to add audiobooks to the mix. Amazon's subsidiary Audible is already the market leader in digital audiobook services. Audible also features podcasts and other short-form produced audio content, but it has not marketed itself as a podcast platform *per se*. It will take some effort, organizationally as well as technically, to integrate Audible's audiobooks into Amazon Music (or vice versa), but Amazon may decide to do it in the future. Meanwhile, Spotify already offers a small catalog of audiobooks and recently posted a job opening for Head of Audio Books in its New York or Los Angeles office. (And the job listing was removed from Spotify's website, suggesting that Spotify may already have filled the position.)



Bill Rosenblatt

I am the founder of GiantSteps Media Technology Strategies, a consulting firm whose clients include content providers and digital media technology companies ranging from

...

I am the founder of GiantSteps Media Technology Strategies, a consulting firm whose clients include content providers and digital media technology companies ranging from early stage startups to Global 500, as well as public policy entities related to copyright in the digital age. My background includes stints as an IT and digital media executive at traditional and new media companies as well as market strategist for the media industry at a major computer company. I am adjunct faculty at NYU, where I teach Data Analysis in the Music Industry.

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Amazon doesn't sell Echo speakers at a loss, says Bezos — unless they're on sale

But aren't they almost always on sale?

By [Sean Hollister](#) | [@StarFire2258](#) | Jul 29, 2020, 4:50pm EDT



Photo by Chris Welch / The Verge

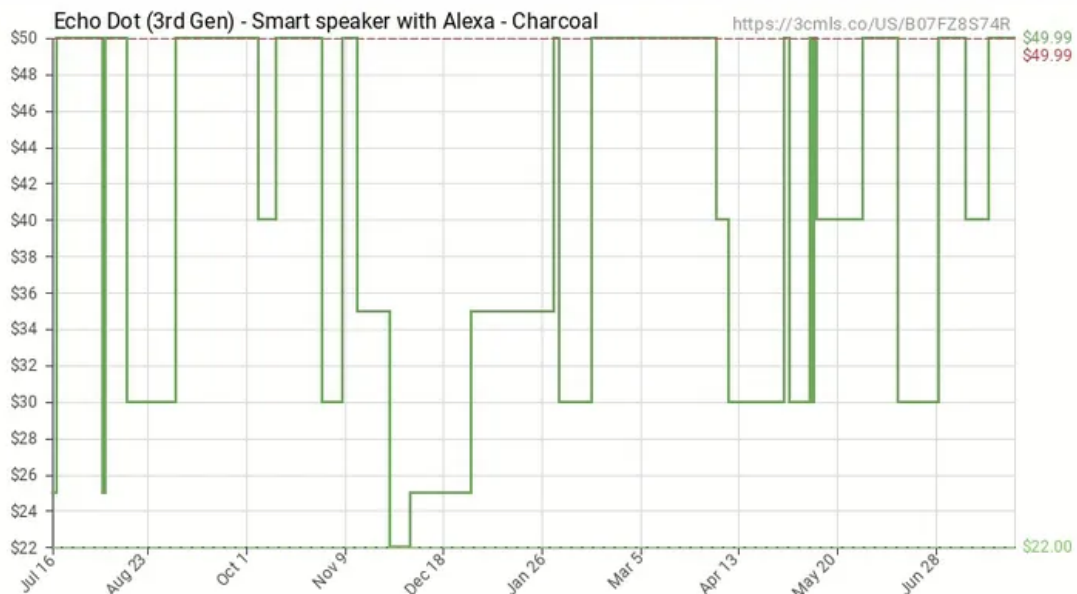
Amazon has long been accused of undercutting its rivals with its Echo smart speakers, allegedly [keeping competitors like Sonos](#) from getting a foothold in the market — but Amazon CEO Jeff Bezos says that at their full retail price, the company isn't taking a loss on these products.

During [the big antitrust hearing today](#) where Apple CEO Tim Cook, Google CEO Sundar Pichai, and Facebook CEO Mark Zuckerberg are also facing down lawmaker questions, Rep. Jamie Raskin (D-MD) asked a pointed question about whether Amazon was pricing its Echo devices below cost. This is possibly referring to the theory of predatory pricing where a company tries to drive its rivals out of business by selling products at a loss, [something Amazon specifically has been accused of](#), most notably with Diapers.com.

Amazon's Bezos replied that at "its list price," the company isn't losing money on the Echo, suggesting it's either breaking even or making a profit. But he also admitted that "sometimes when it's on promotion it may be below cost, yes."

That's key, because Amazon's Echo devices almost always seem to be on sale.

[Camelcamelcamel.com](#), which tracks Amazon's price history for a wide variety of products, suggest that devices like [Amazon's Echo Dot](#) and [Echo Show](#) are on sale as often as not:



Screenshot of [camelcamelcamel](#)

I personally advise people never to buy an Echo at full price because there's always a [\\$40-off sale](#), [\\$1 promo](#), [free giveaway](#), or [BOGO deal](#) right around the corner.

In 2018, ABI Research [estimated that](#) an Echo Dot cost \$31 for the parts alone, suggesting that Amazon would have definitely lost some money at a typical sale price of \$30. The same firm came to a similar conclusion [in 2017](#) as well.

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Amazon maintains big lead over Google and Apple in U.S. smart speaker market, new study says

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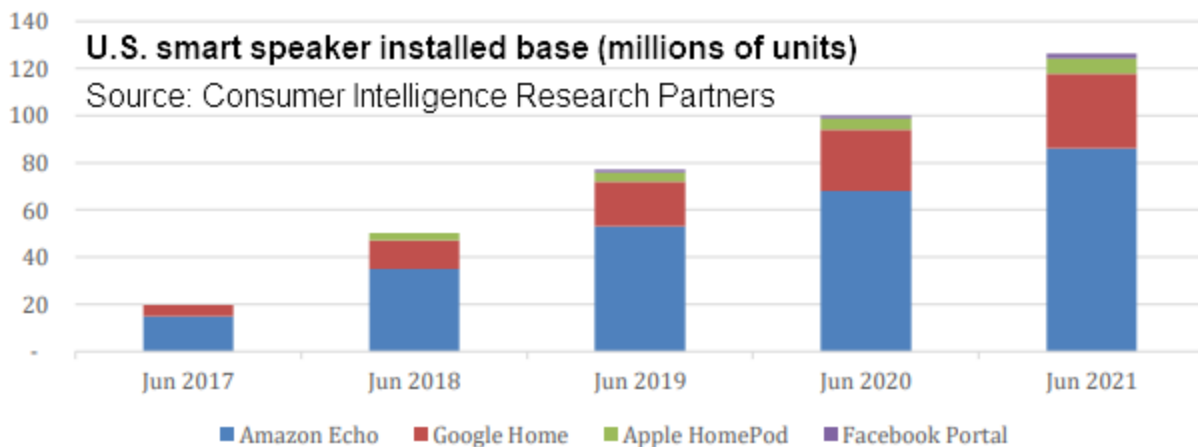


Amazon's Echo Dot. (Amazon Photo)

Amazon has a “dominant share” of the U.S. market for smart speakers, accounting for 69% of devices sold over the past five years, according to a new report from Consumer Intelligence Research Partners (CIRP).

The research shows Google Home, Apple HomePod and Facebook Portal growing their unit sales, to varying degrees, but not enough to chip away meaningfully at Amazon Echo’s lead in the installed base (cumulative units sold).

CIRP estimates that Google has 25% of the installed base, Apple has 5%, and Facebook has 1%, compared to Amazon’s 69%, as of June 2021.



Consumer Intelligence Research Partners tracks the growth of the installed base for smart speakers in the U.S., in millions of units, and the relative market share for each company.

Google Home launched in late 2016 and had 31% of the U.S. installed base by the end of 2017, but has seen its share slip since then.

Amazon was first to market with its Echo smart speakers, launching them in 2014 with its Alexa voice assistant. The company appears to be benefitting in multiple ways from its position.

“One critical goal for everyone in the industry is to get as many units into as many homes as possible,” said Mike Levin, CIRP partner and co-founder, in a statement. “With multiple devices in a single home, a smart speaker platform can claim that literal real estate as theirs, as barriers to switching get very high.”

He added, “Amazon leads the way with customers with multiple devices. We estimate over 20 million US households have more than one Echo, while about 8 million US households have multiple Google Home units.”

CIRP estimates that the total U.S. installed base for smart speakers grew from 20 million units in June 2017 to 126 million units in June 2021.

COEX-8.129

COEX-
8.129

 THE INFINITE DIAL 2021

The Infinite Dial 2021

#InfiniteDial



#InfiniteDial

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Study Overview

- ▶ The Infinite Dial is the longest-running survey of digital media consumer behavior in America
- ▶ The annual reports in this series have covered a wide range of digital media and topics since 1998
- ▶ The Infinite Dial tracks mobile behaviors, internet audio, podcasting, social media, smart speakers and more

Study Methodology

- In January 2021, Edison Research conducted a national telephone survey of 1507 people aged 12 and older, using random digit dialing techniques to both cell phones and landlines
- Survey offered in both English and Spanish
- Data weighted to national 12+ U.S. population figures

 THE INFINITE DIAL® 2021

Media & Technology



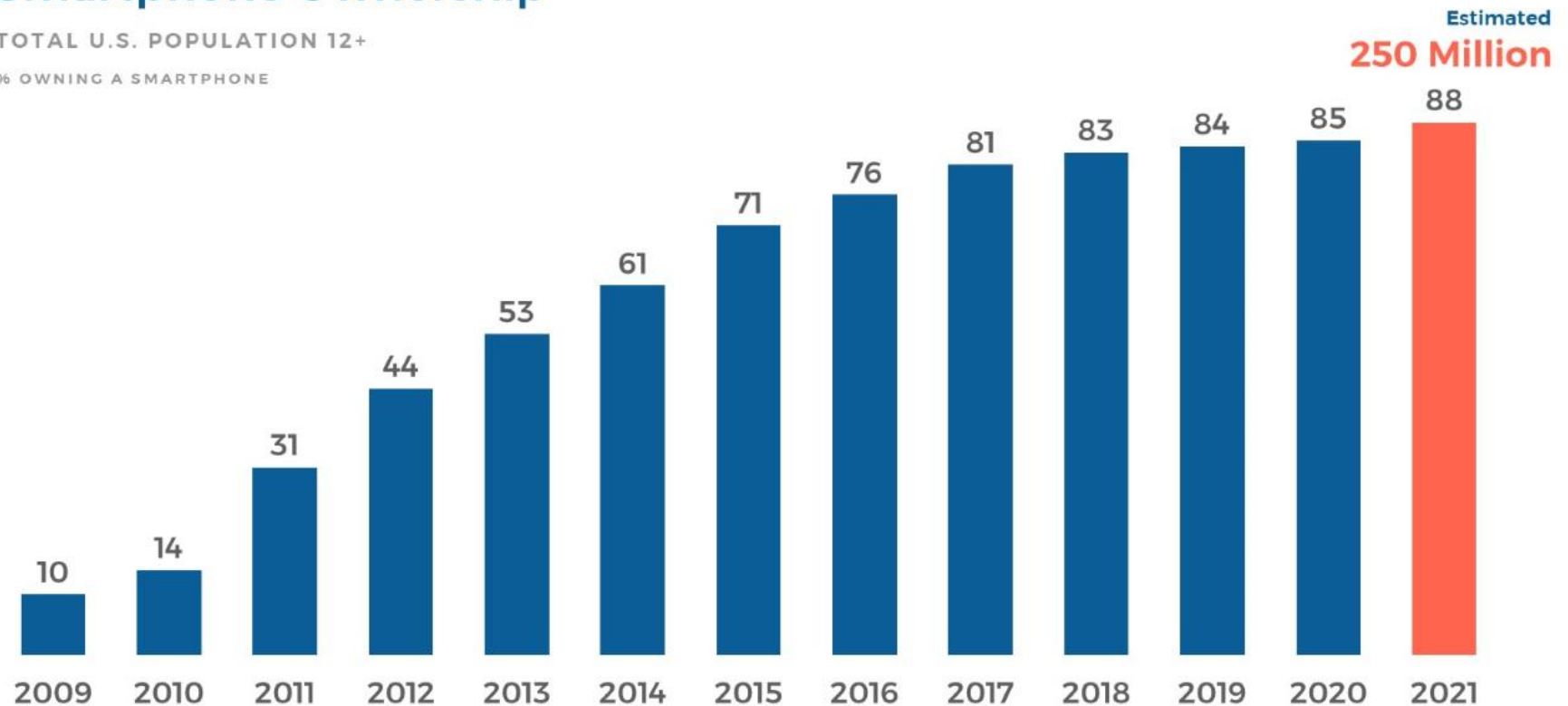
#InfiniteDial

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Smartphone Ownership

TOTAL U.S. POPULATION 12+

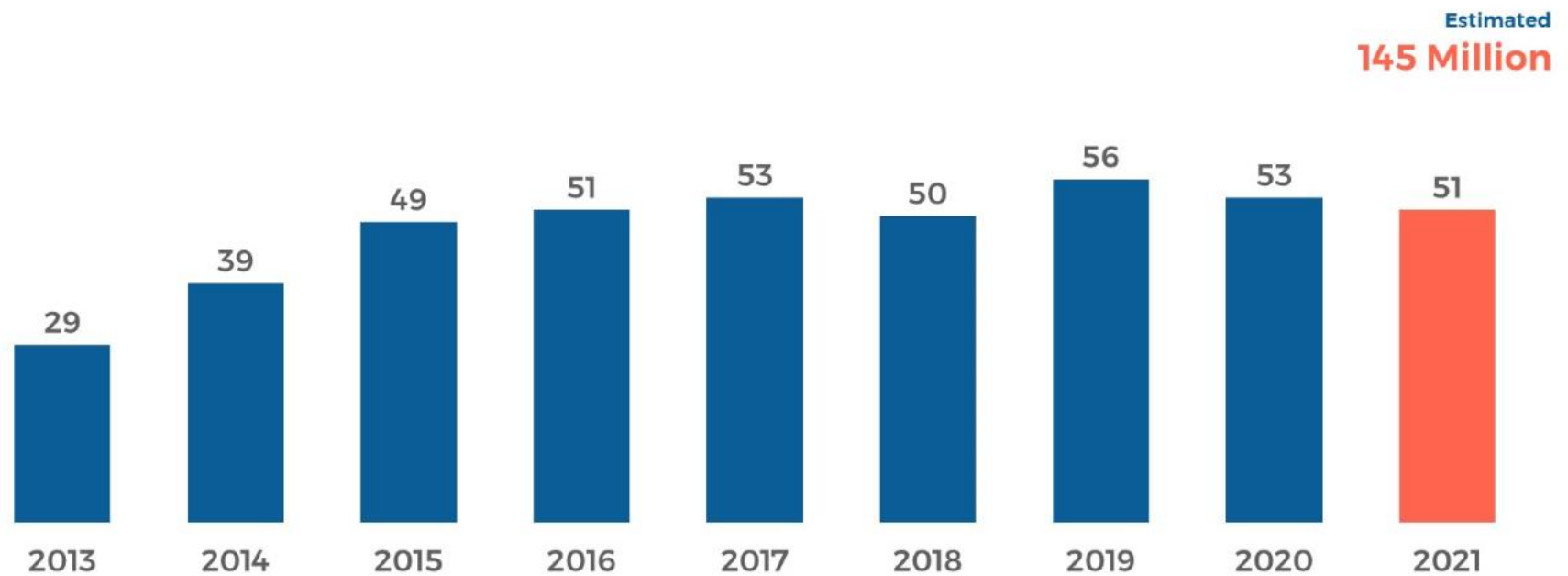
% OWNING A SMARTPHONE



Tablet Ownership

TOTAL U.S. POPULATION 12+

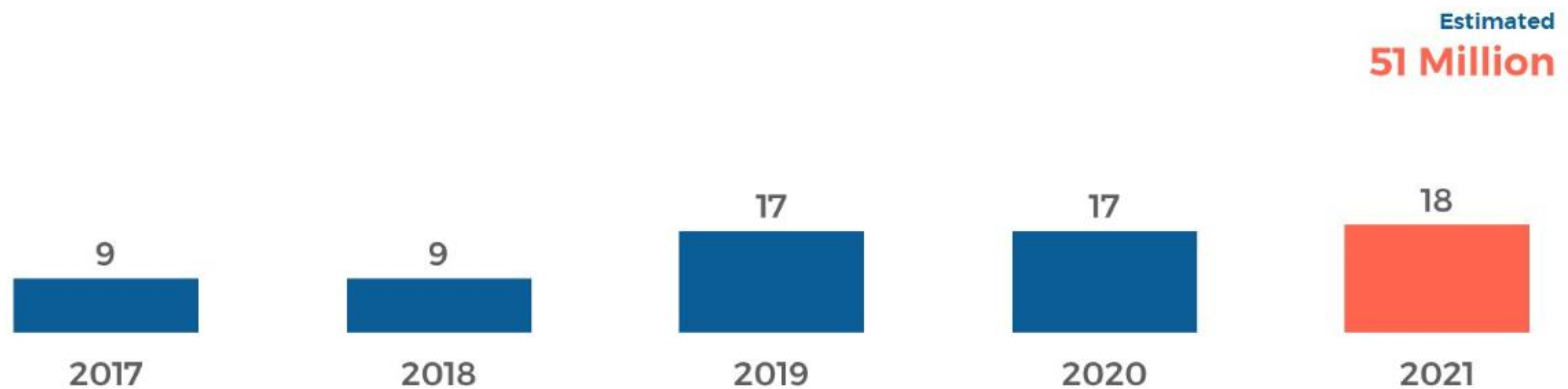
% OWNING A TABLET



Internet-connected Watch Ownership

TOTAL U.S. POPULATION 12+

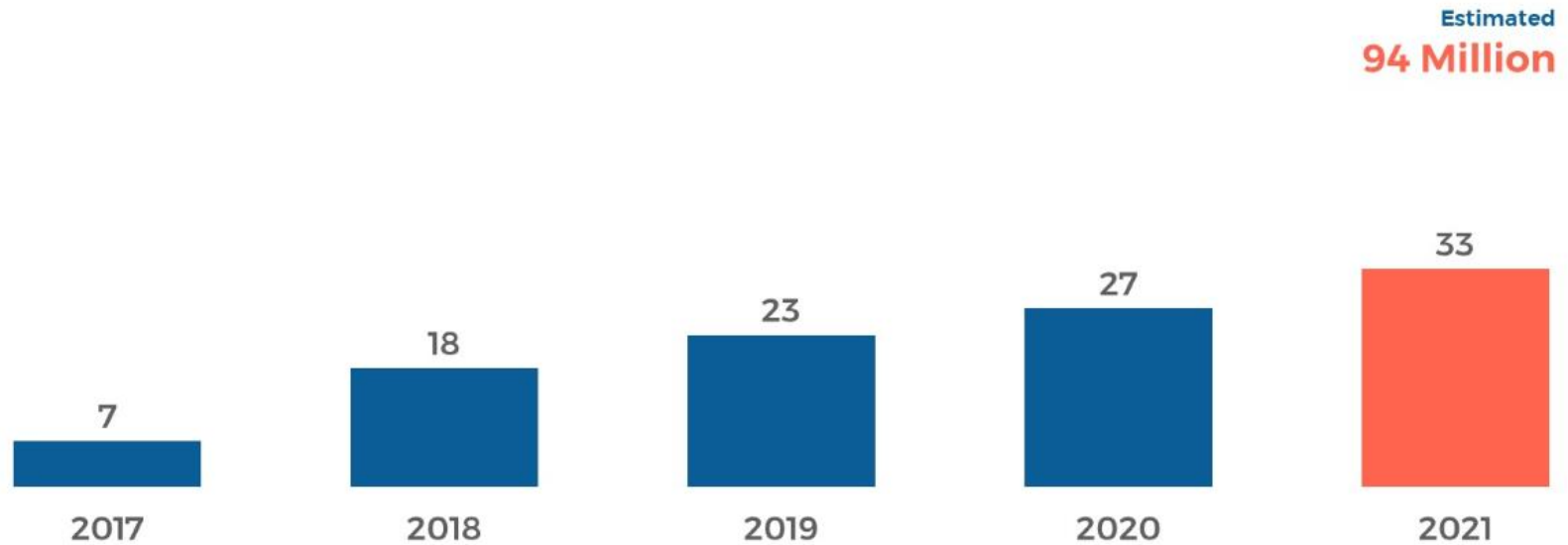
% OWNING AN INTERNET-CONNECTED WATCH



Smart Speaker Ownership

TOTAL U.S. POPULATION 12+

% OWNING A SMART SPEAKER

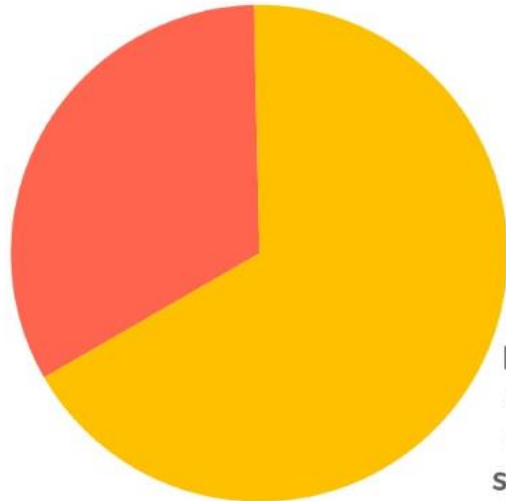


Smart Speaker Ownership

TOTAL U.S. POPULATION 12+

U.S. POPULATION 12+

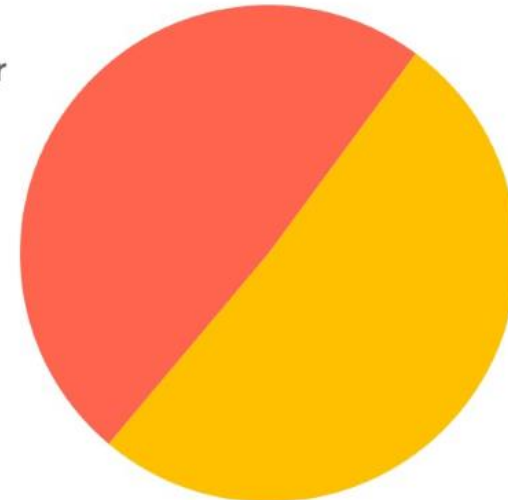
Own a
smart
speaker
33%



Do not
own a
smart
speaker
67%

WORK FROM HOME
(BASE: EMPLOYED FULL-TIME OR PART-TIME
AND WORK FROM HOME; 11%)

Own a
smart
speaker
49%

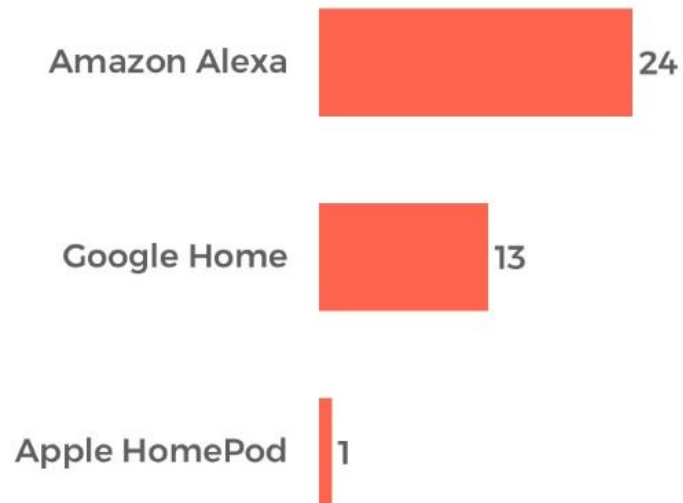


Do not
own a
smart
speaker
51%

Smart Speaker Ownership

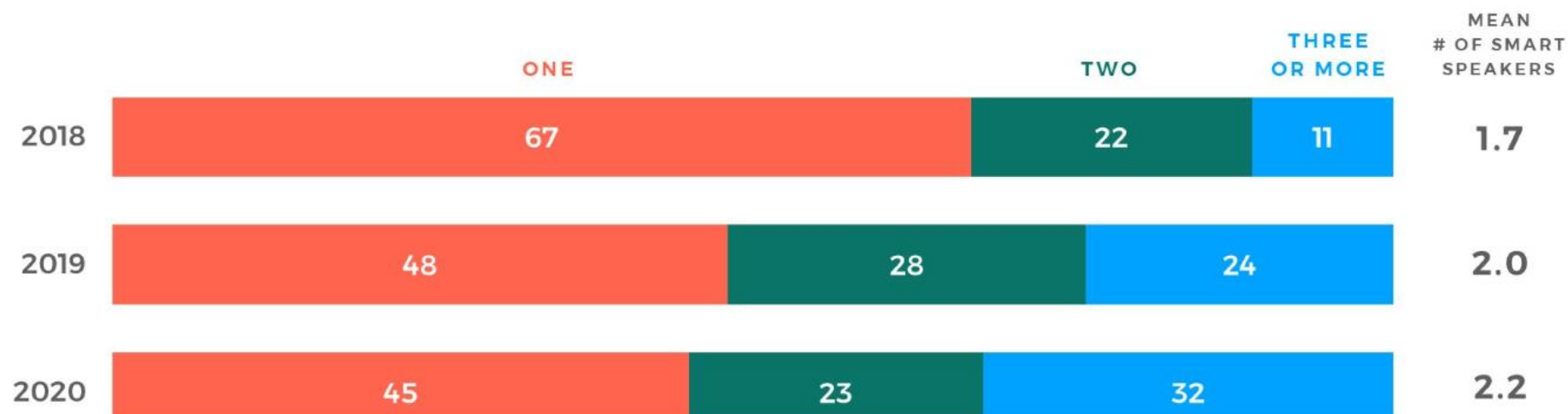
TOTAL U.S. POPULATION 12+

% OWNING SMART SPEAKER



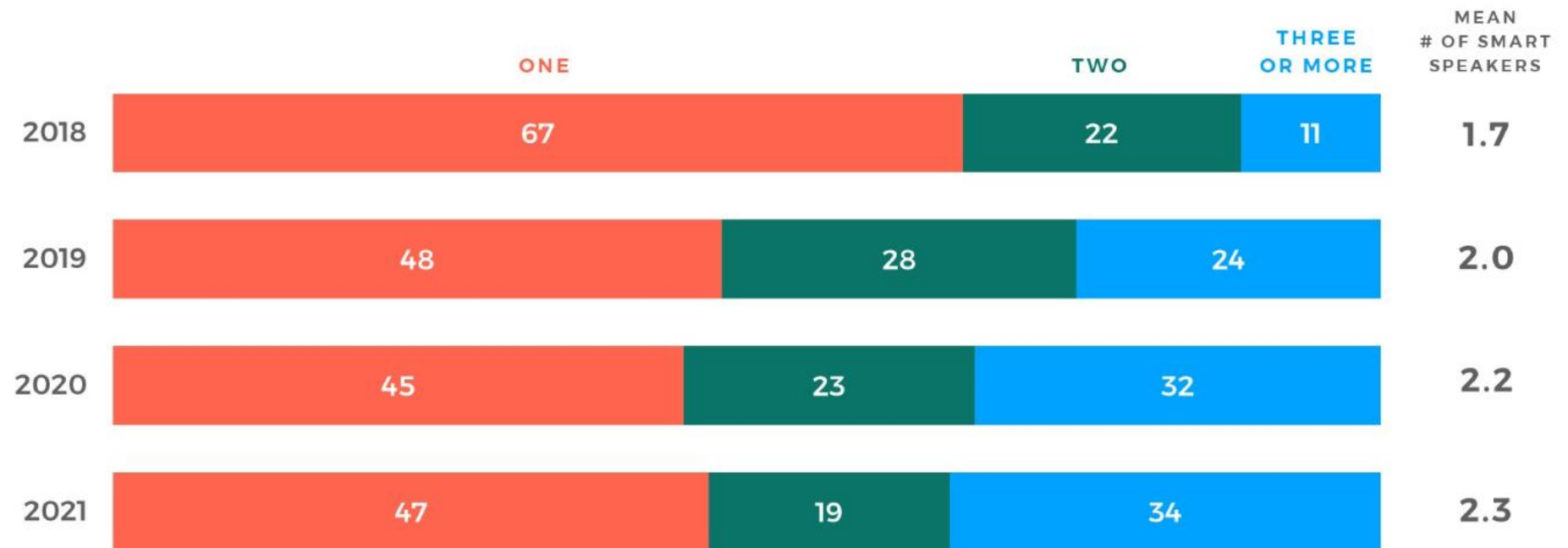
Number of Smart Speakers in Household

BASE: U.S. AGE 12+ SMART SPEAKER OWNERS



Number of Smart Speakers in Household

BASE: U.S. AGE 12+ SMART SPEAKER OWNERS

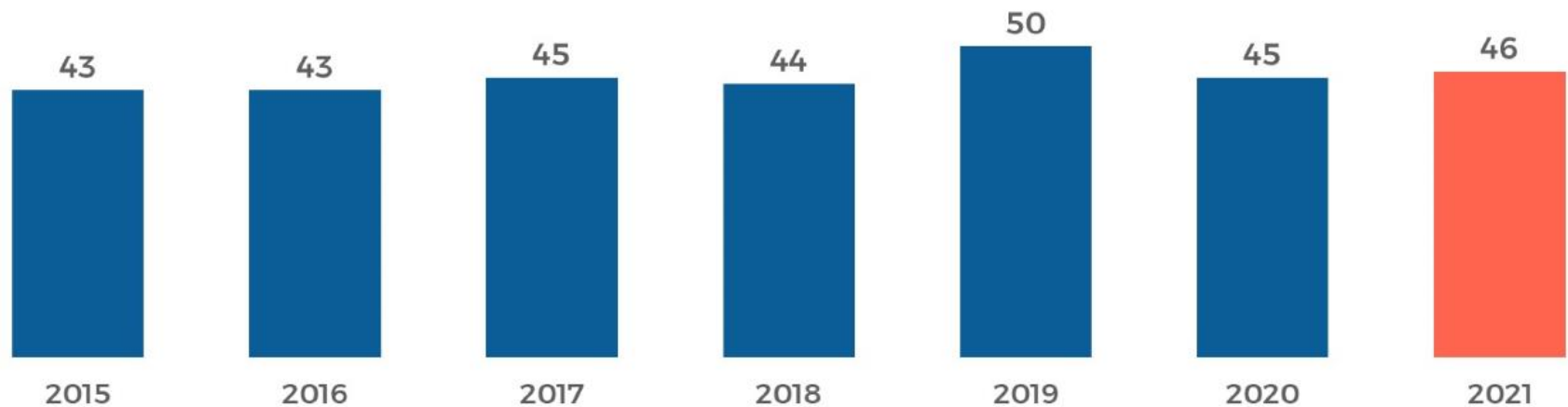


Audiobook Listening

TOTAL U.S. POPULATION 12+

% EVER LISTENED TO AN AUDIOBOOK

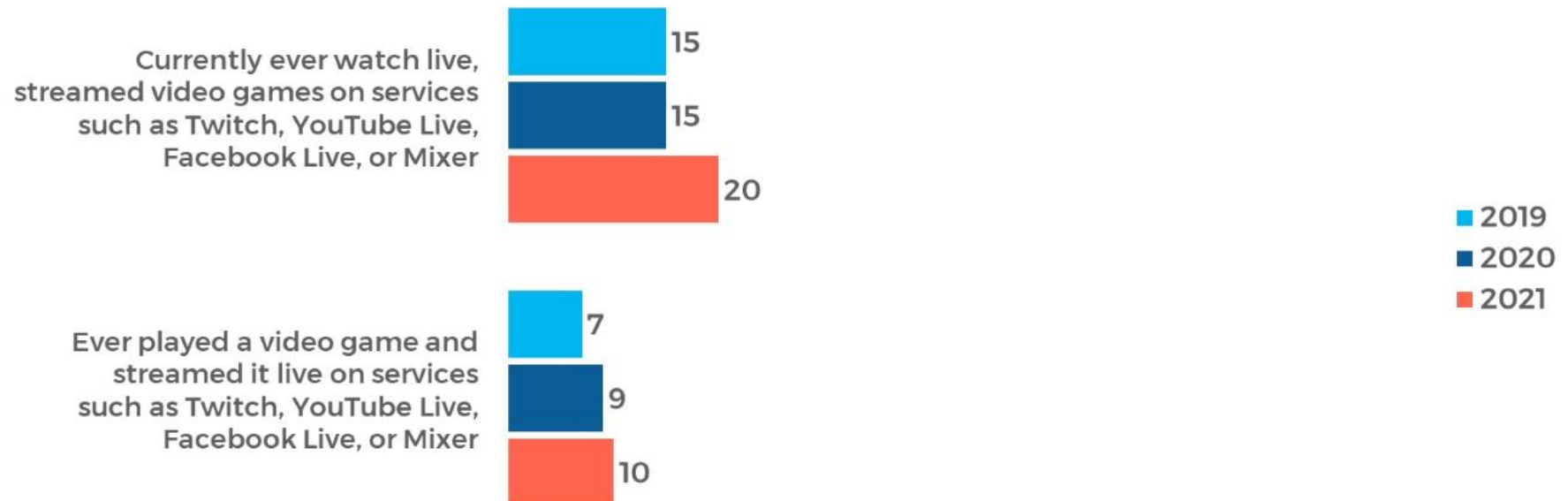
Estimated
131 Million



Live Streamed Video Games

TOTAL U.S. POPULATION 12+

% SAYING YES



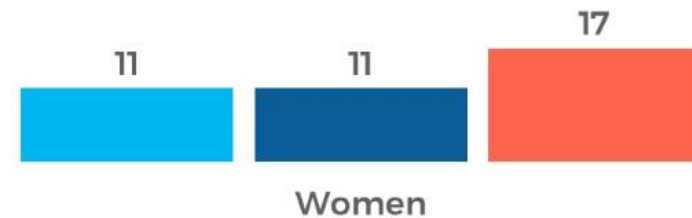
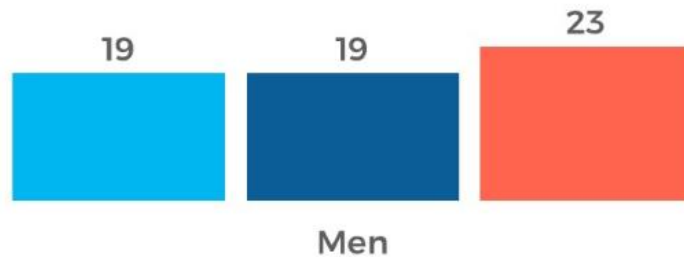
Currently Ever Watch Live Streamed Video Games

TOTAL U.S. POPULATION 12+

% SAYING YES

"Do you currently ever watch live, streamed video games on services such as Twitch, YouTube Live, Facebook Live, or Mixer?"

■ 2019 ■ 2020 ■ 2021



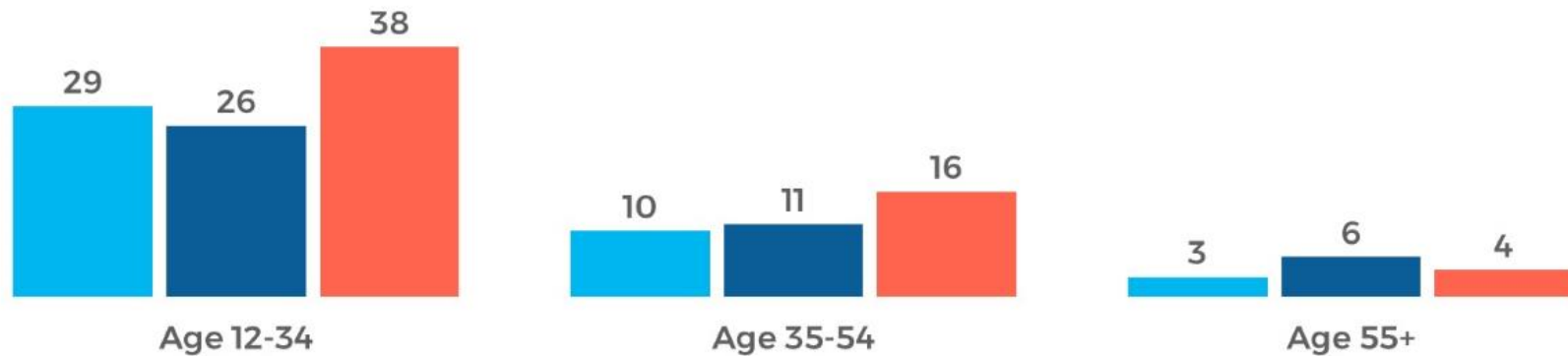
Currently Ever Watch Live Streamed Video Games

TOTAL U.S. POPULATION 12+

% SAYING YES

"Do you currently ever watch live, streamed video games on services such as Twitch, YouTube Live, Facebook Live, or Mixer?"

■ 2019 ■ 2020 ■ 2021



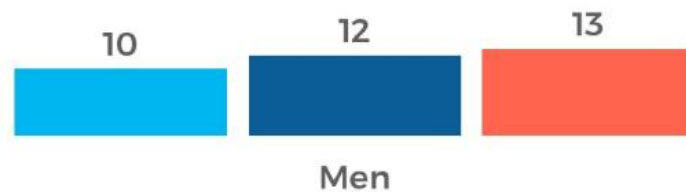
Ever Played a Video Game and Streamed it Live

TOTAL U.S. POPULATION 12+

% SAYING YES

"Have you ever played a video game and streamed it live on services such as Twitch, YouTube Live, Facebook Live, or Mixer?"

■ 2019 ■ 2020 ■ 2021



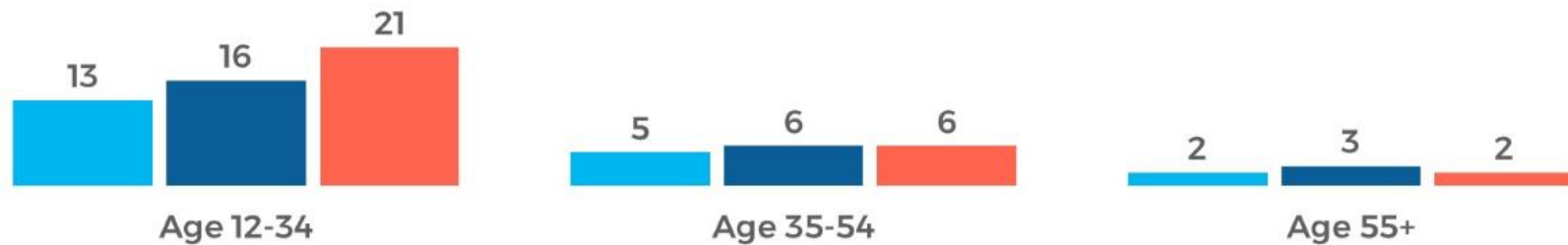
Ever Played a Video Game and Streamed It Live

TOTAL U.S. POPULATION 12+

% SAYING YES

"Have you ever played a video game and streamed it live on services such as Twitch, YouTube Live, Facebook Live, or Mixer?"

■ 2019 ■ 2020 ■ 2021



 THE INFINITE DIAL 2021

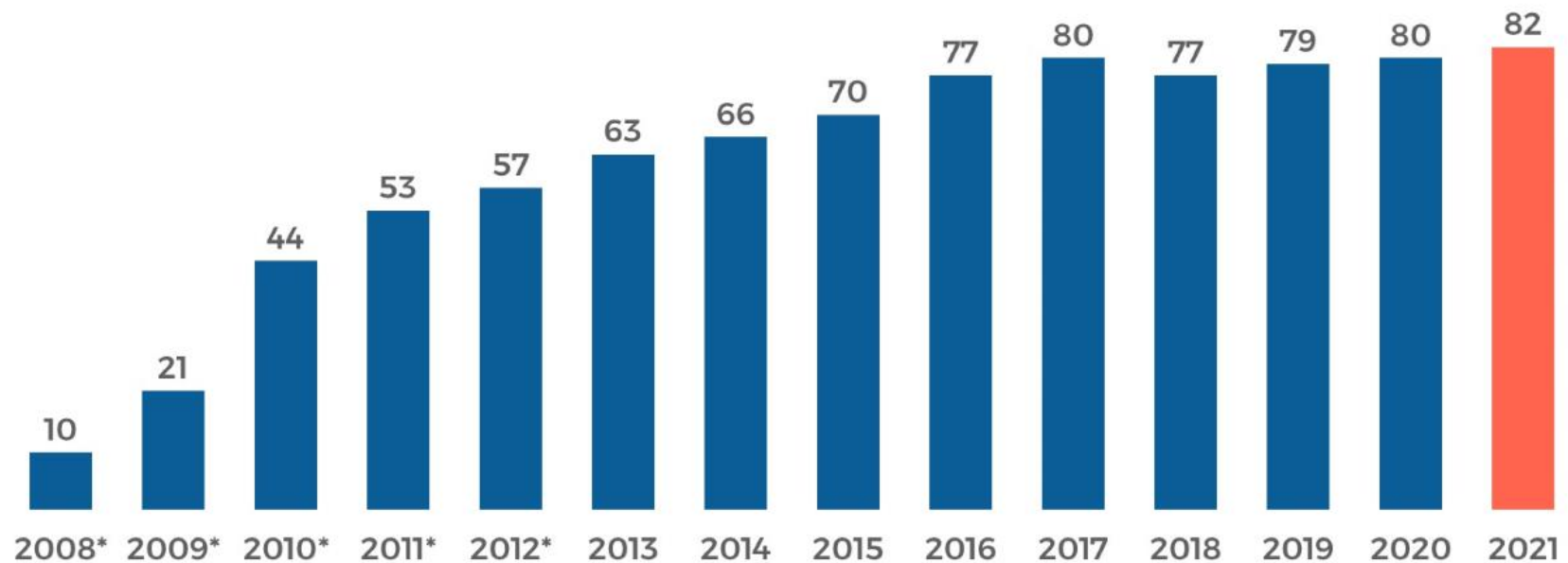
Social Media

Social Media Usage

TOTAL U.S. POPULATION 12+

% USING SOCIAL MEDIA

Estimated
233 Million



*2008-2012: EVER USE FACEBOOK, TWITTER, OR LINKEDIN



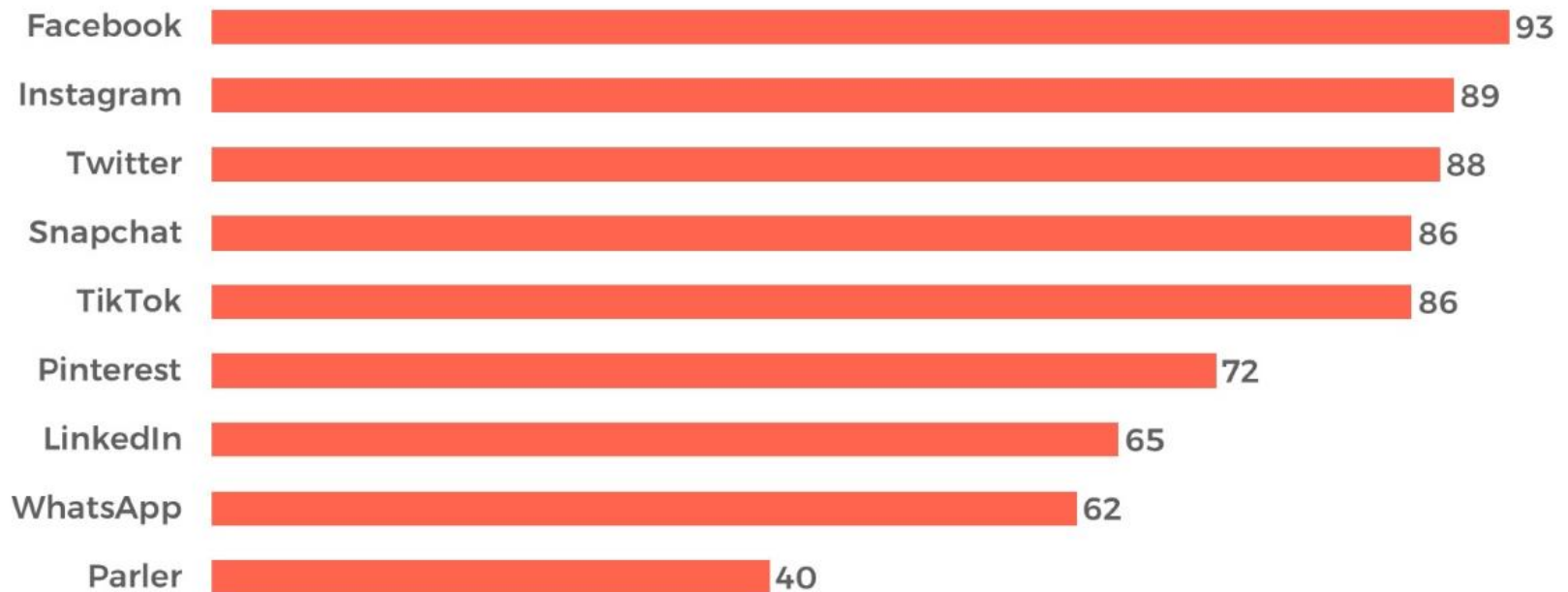
#InfiniteDial

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Social Media Brand Awareness

TOTAL U.S. POPULATION 12+

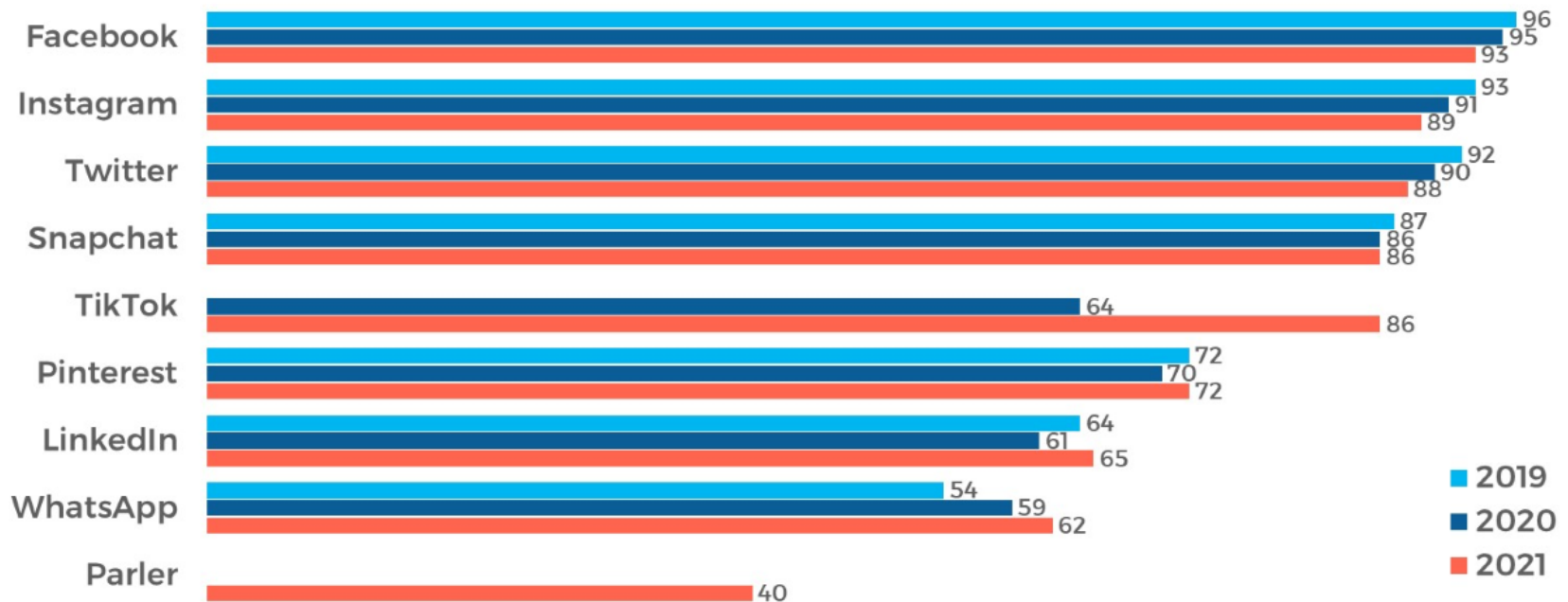
% AWARE OF SOCIAL MEDIA BRAND



Social Media Brand Awareness

TOTAL U.S. POPULATION 12+

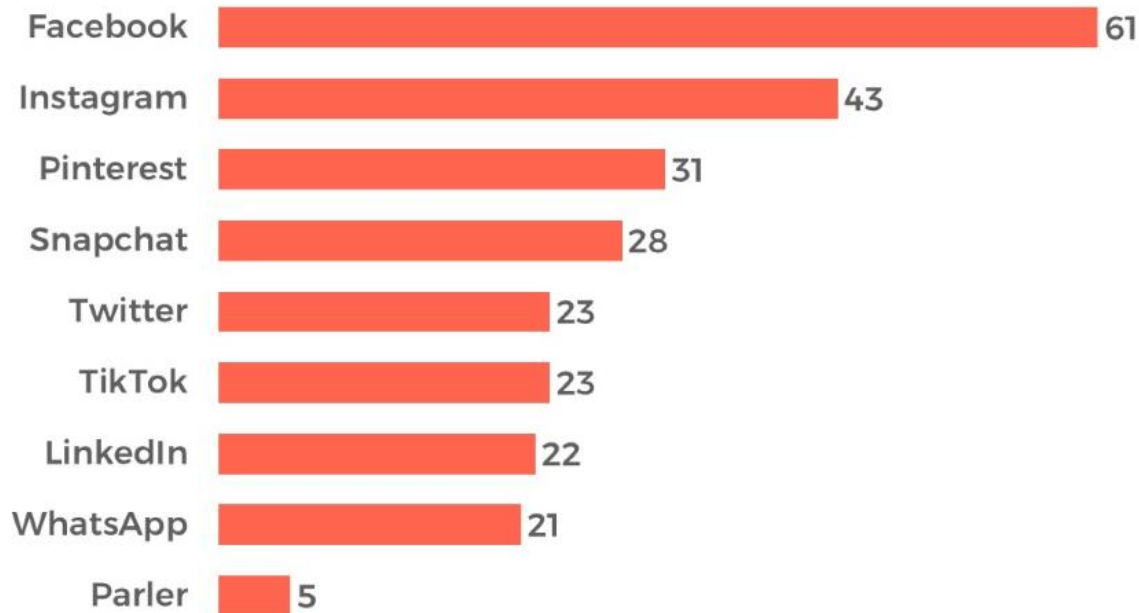
% AWARE OF SOCIAL MEDIA BRAND



Social Media Brand Usage

TOTAL U.S. POPULATION 12+

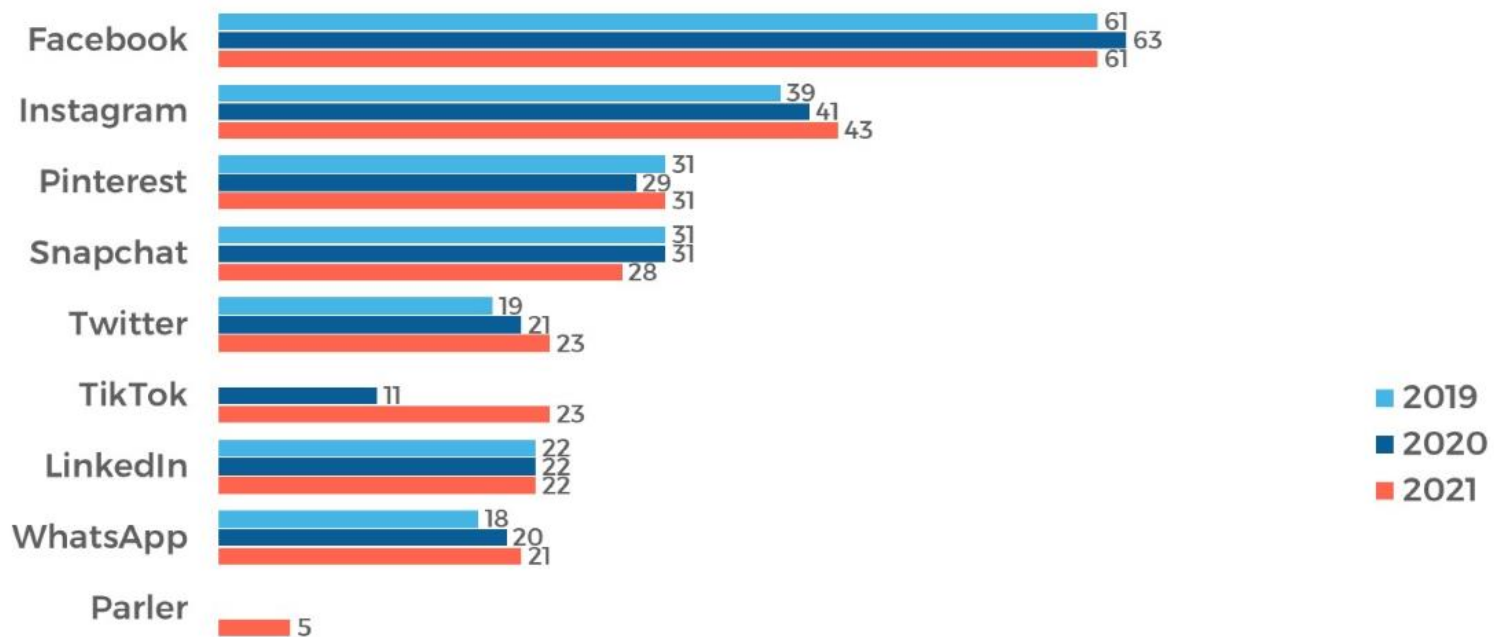
% USING SOCIAL MEDIA BRAND



Social Media Brand Usage

TOTAL U.S. POPULATION 12+

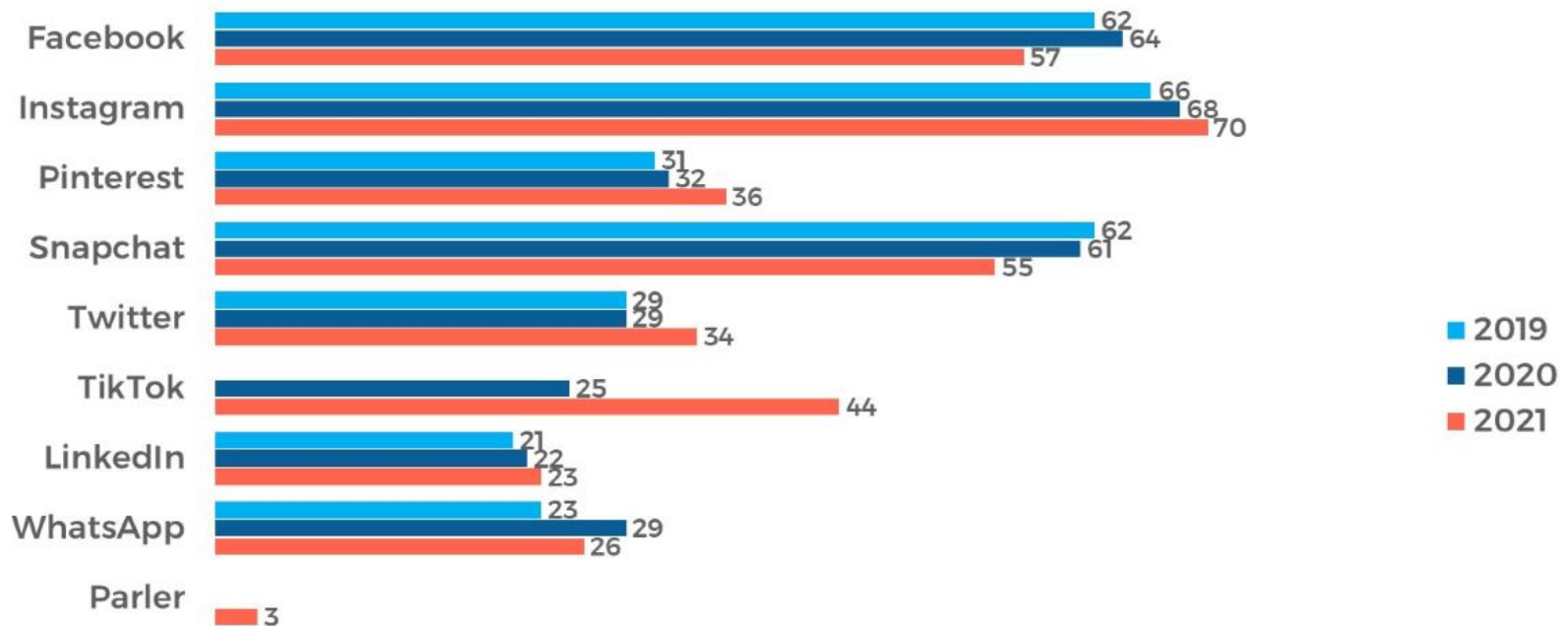
% USING SOCIAL MEDIA BRAND



Social Media Brand Usage (Age 12-34)

U.S. POPULATION

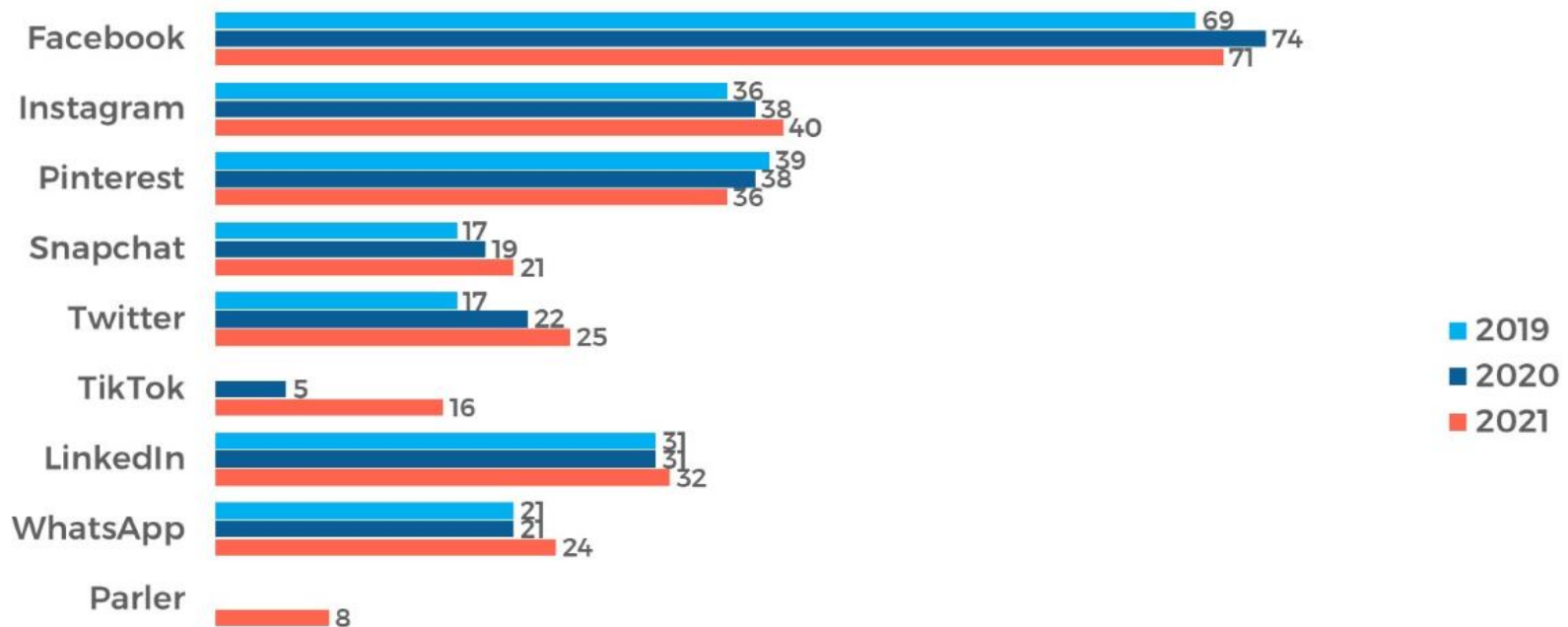
% USING SOCIAL MEDIA BRAND



Social Media Brand Usage (Age 35-54)

U.S. POPULATION

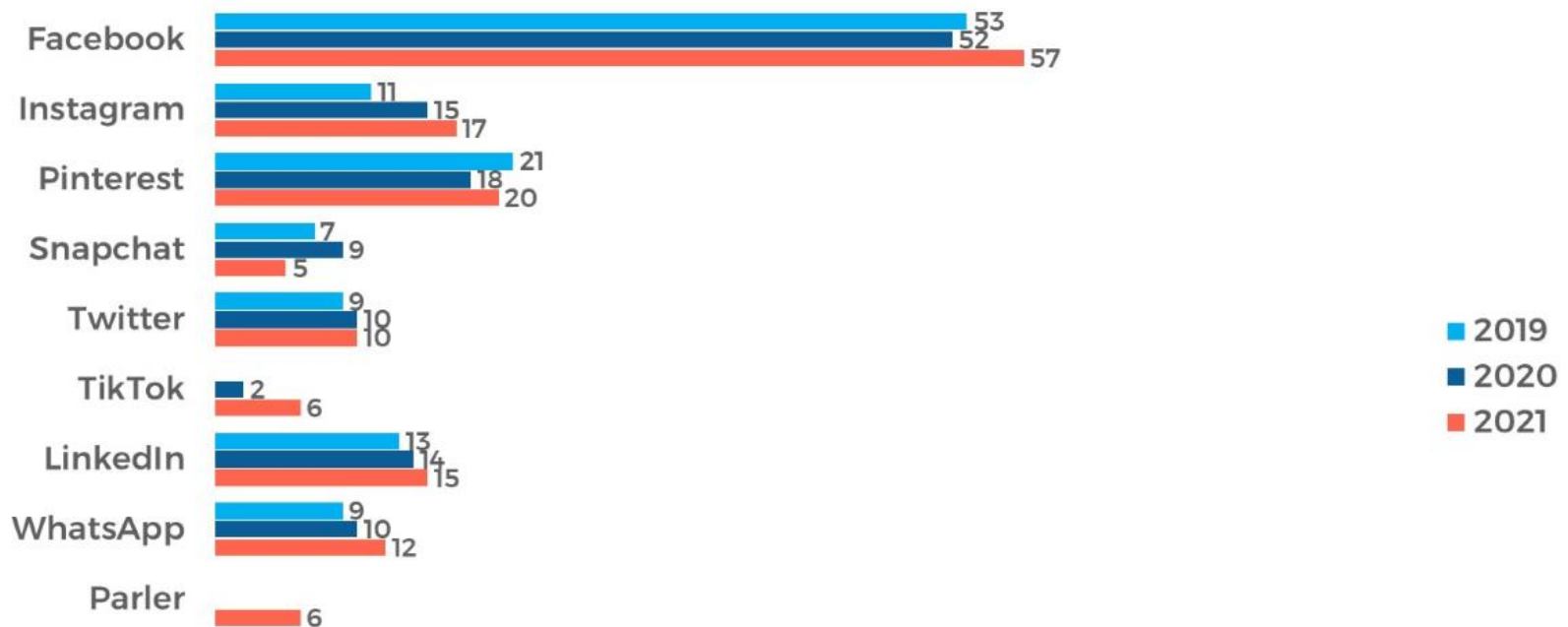
% USING SOCIAL MEDIA BRAND



Social Media Brand Usage (Age 55 and older)

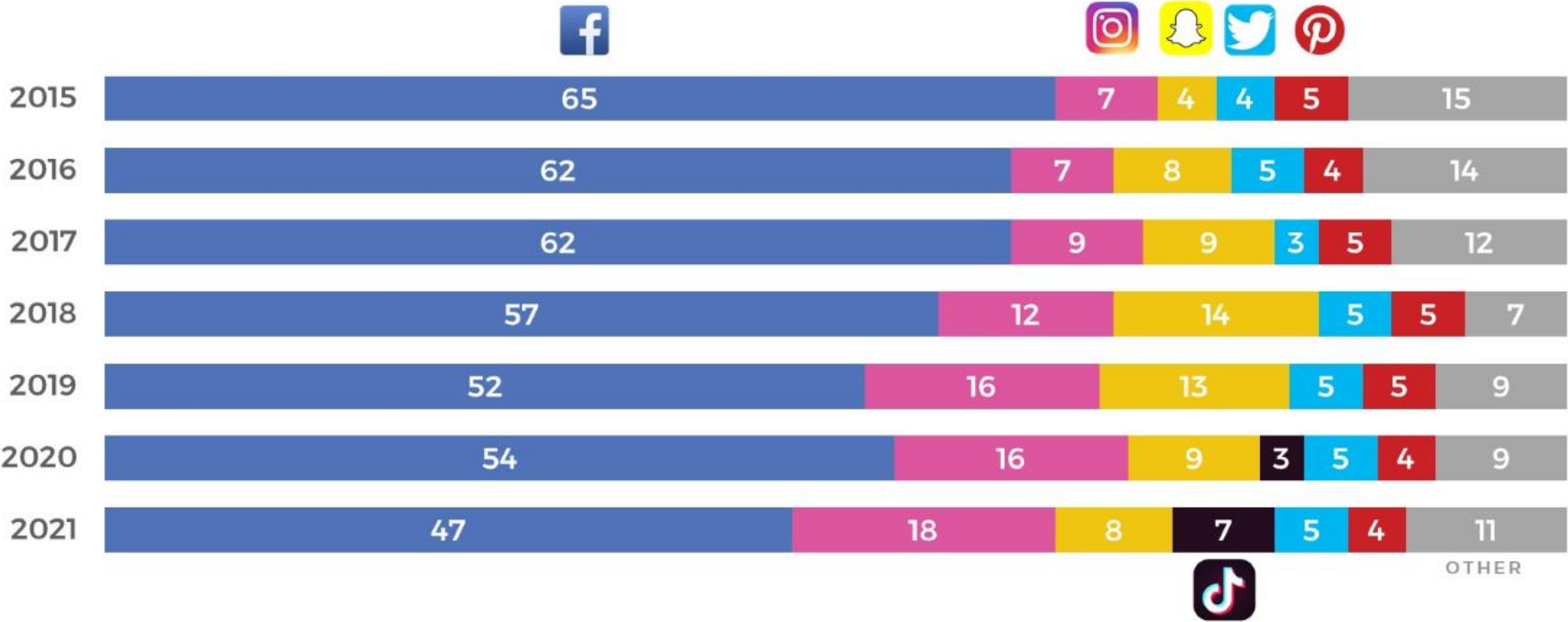
U.S. POPULATION

% USING SOCIAL MEDIA BRAND



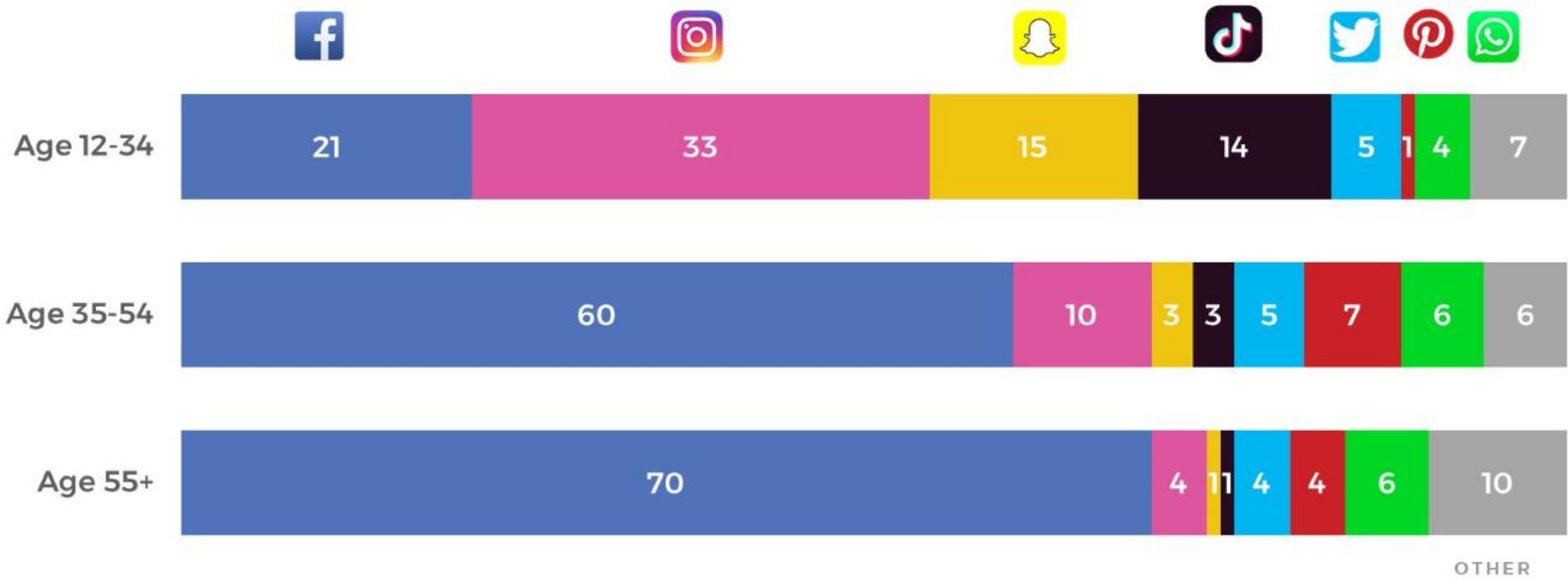
Social Media Brand Used Most Often

BASE: U.S. AGE 12+ SOCIAL MEDIA USERS



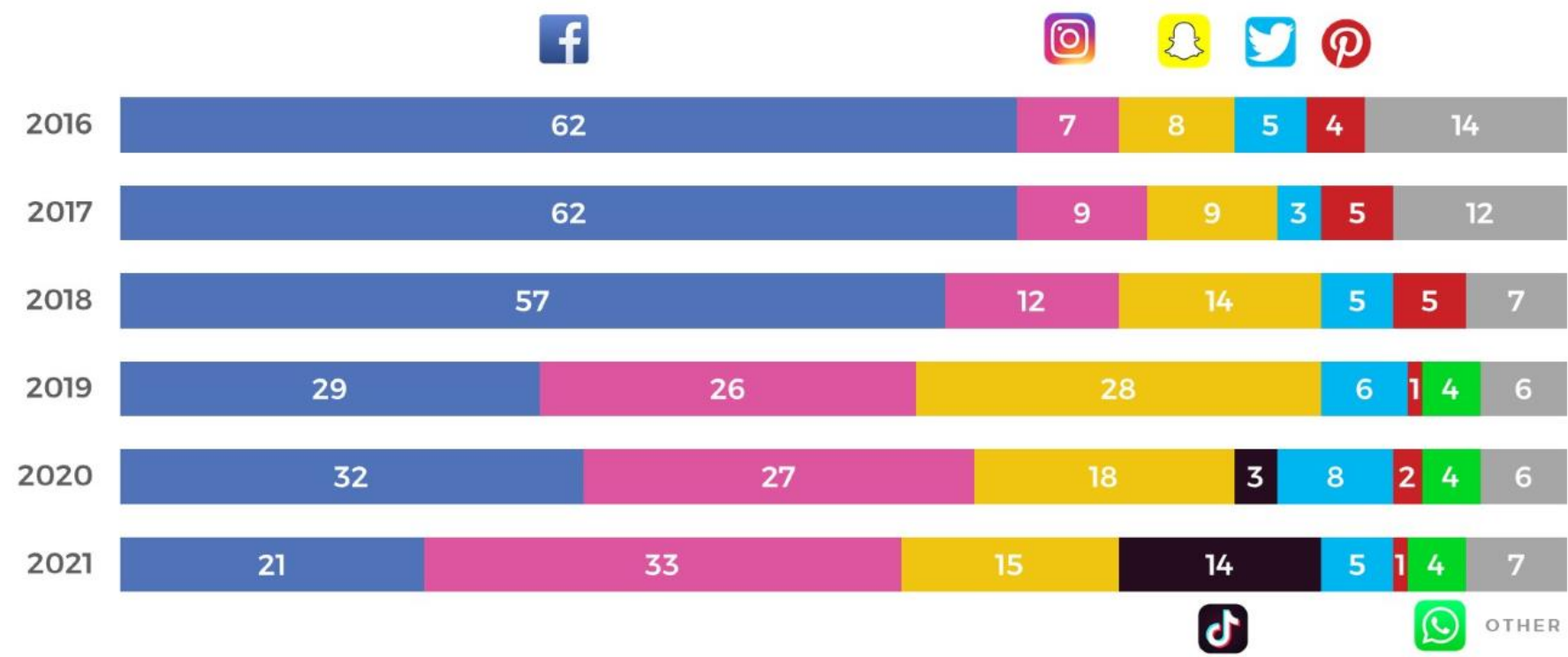
Social Media Brand Used Most Often

BASE: U.S. SOCIAL MEDIA USERS



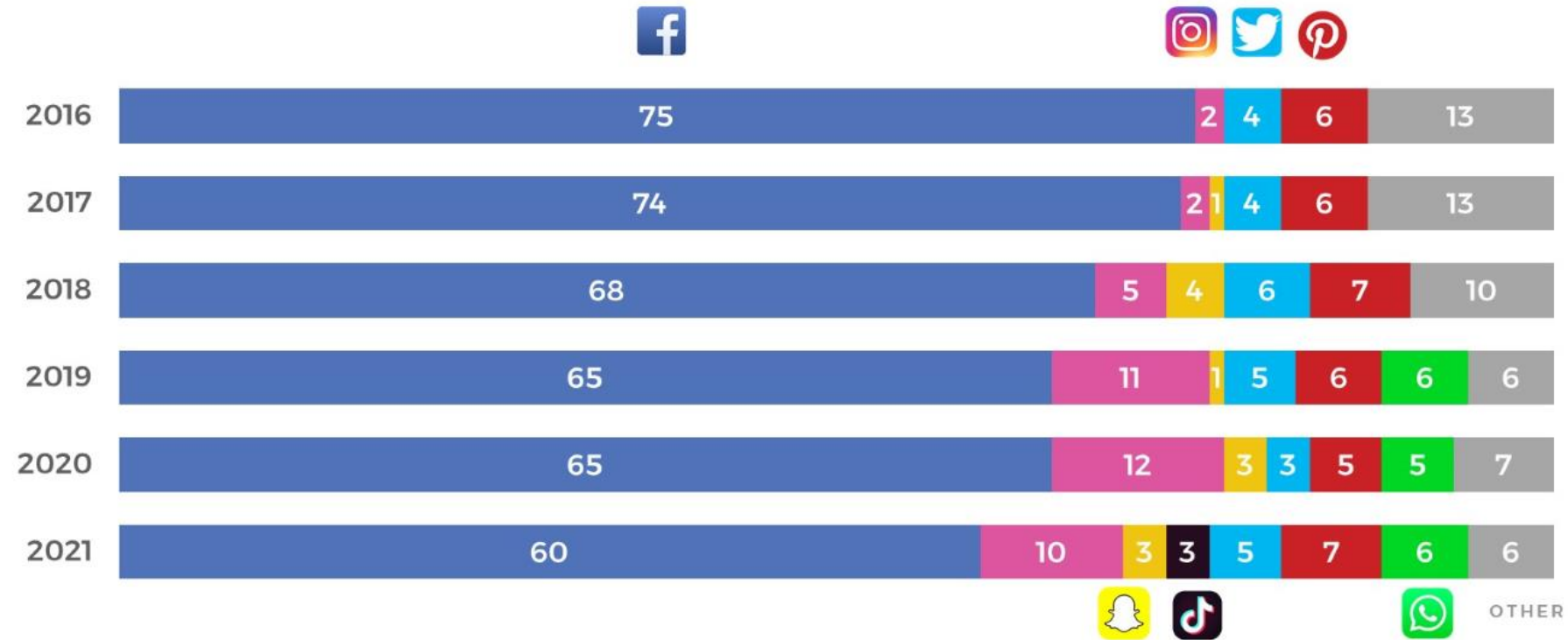
Social Media Brand Used Most Often (Age 12-34)

BASE: U.S. SOCIAL MEDIA USERS



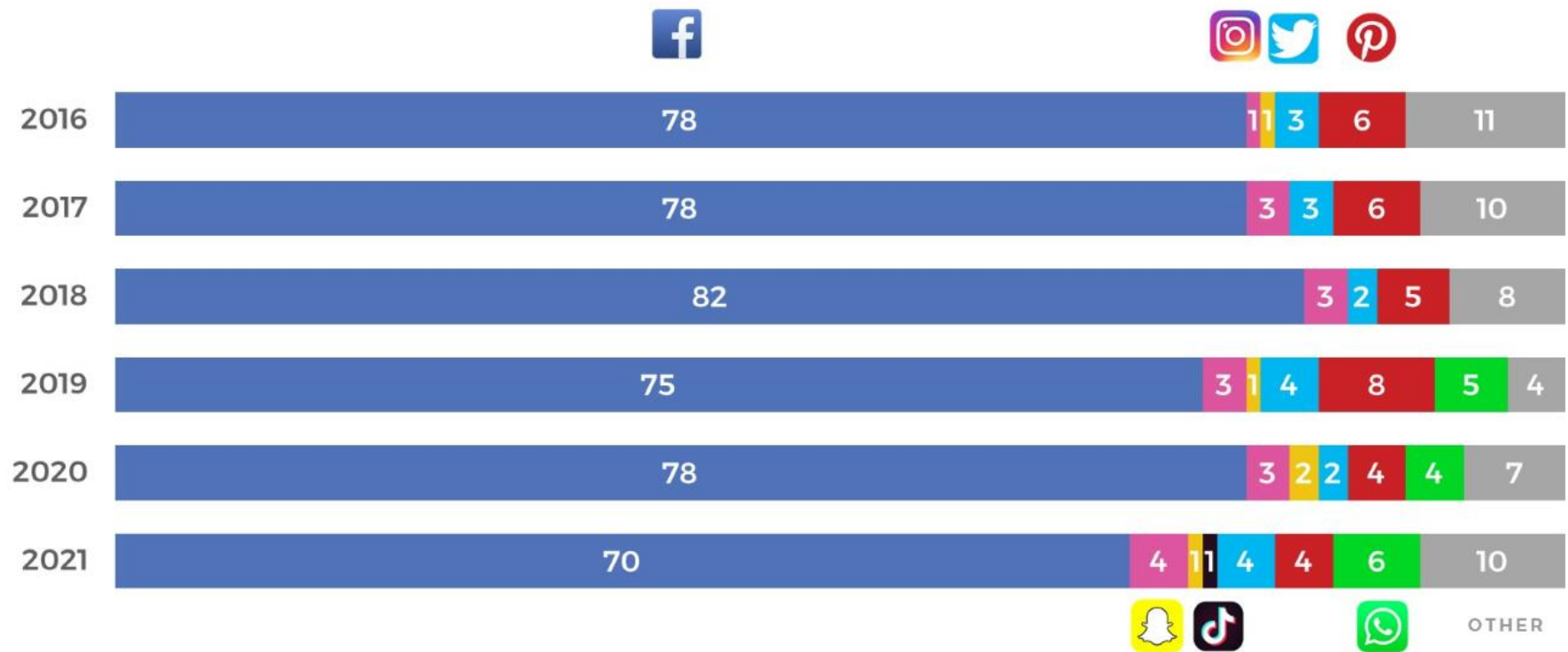
Social Media Brand Used Most Often (Age 35-54)

BASE: U.S. SOCIAL MEDIA USERS



Social Media Brand Used Most Often (Age 55+)

BASE: U.S. SOCIAL MEDIA USERS



 THE INFINITE DIAL 2021

Online Audio



#InfiniteDial

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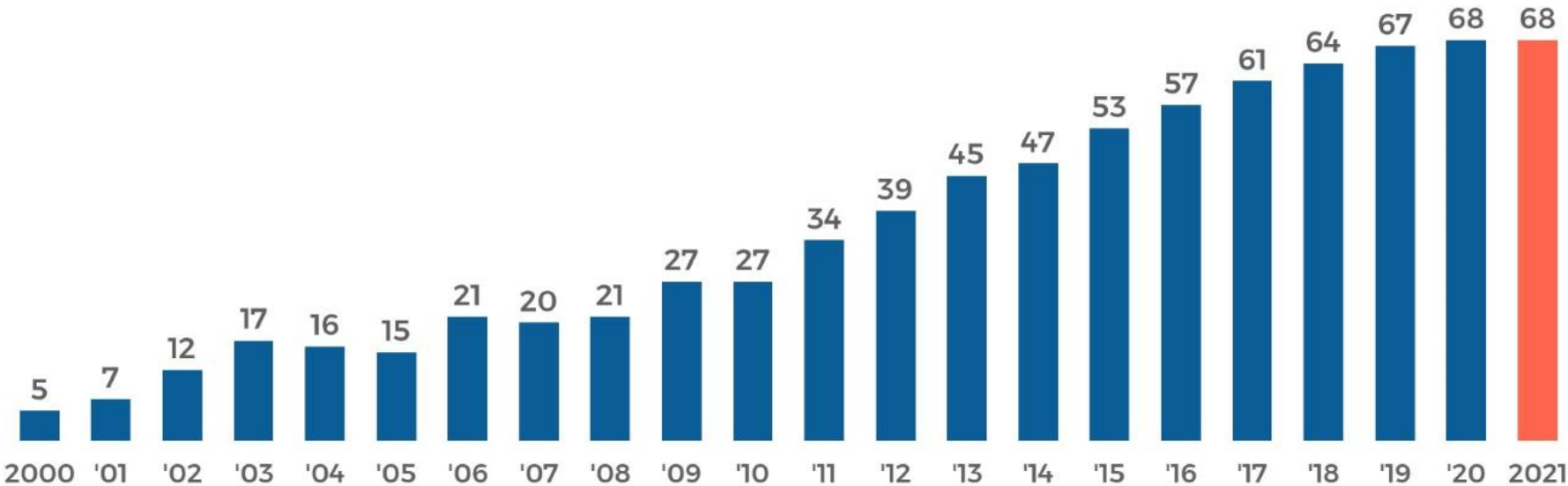
Monthly Online Audio Listening

TOTAL U.S. POPULATION 12+

% LISTENED TO ONLINE AUDIO IN LAST MONTH

ONLINE AUDIO = LISTENING TO AM/FM RADIO STATIONS ONLINE AND/OR
LISTENING TO STREAMED AUDIO CONTENT AVAILABLE ONLY ON THE INTERNET

Estimated
193 Million

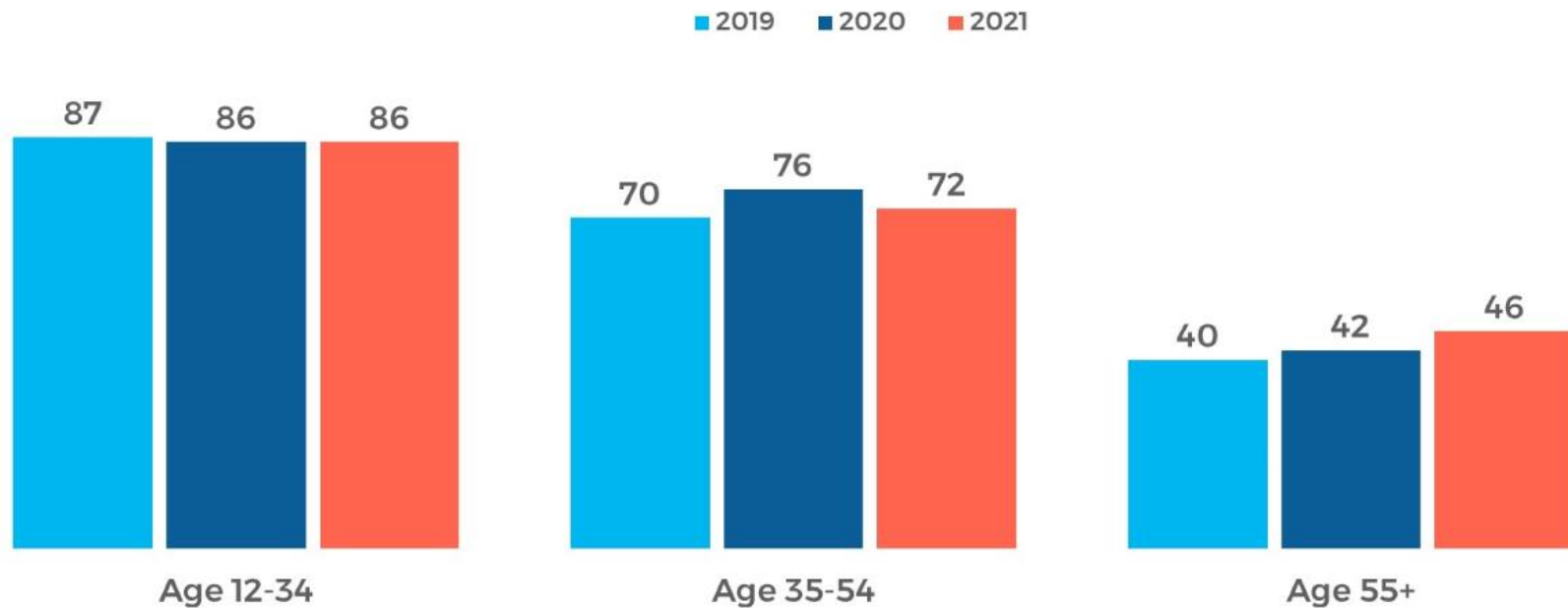


Monthly Online Audio Listening

U.S. POPULATION

% LISTENED TO ONLINE AUDIO IN LAST MONTH

ONLINE AUDIO = LISTENING TO AM/FM RADIO STATIONS ONLINE AND/OR
LISTENING TO STREAMED AUDIO CONTENT AVAILABLE ONLY ON THE INTERNET



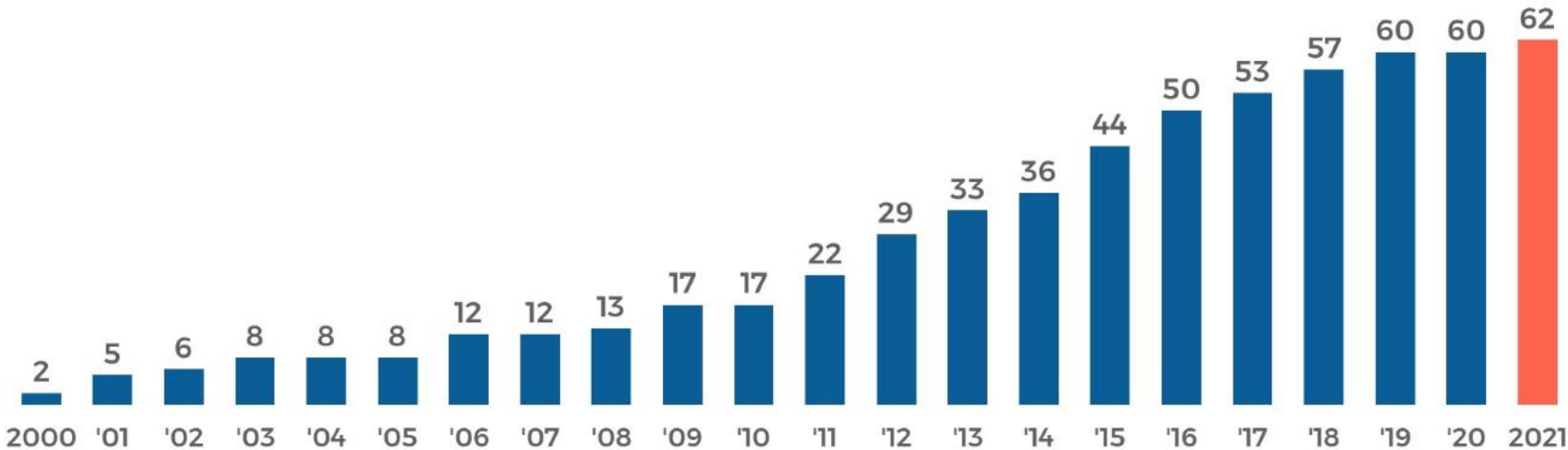
Weekly Online Audio Listening

TOTAL U.S. POPULATION 12+

% LISTENED TO ONLINE AUDIO IN LAST WEEK

ONLINE AUDIO = LISTENING TO AM/FM RADIO STATIONS ONLINE AND/OR
LISTENING TO STREAMED AUDIO CONTENT AVAILABLE ONLY ON THE INTERNET

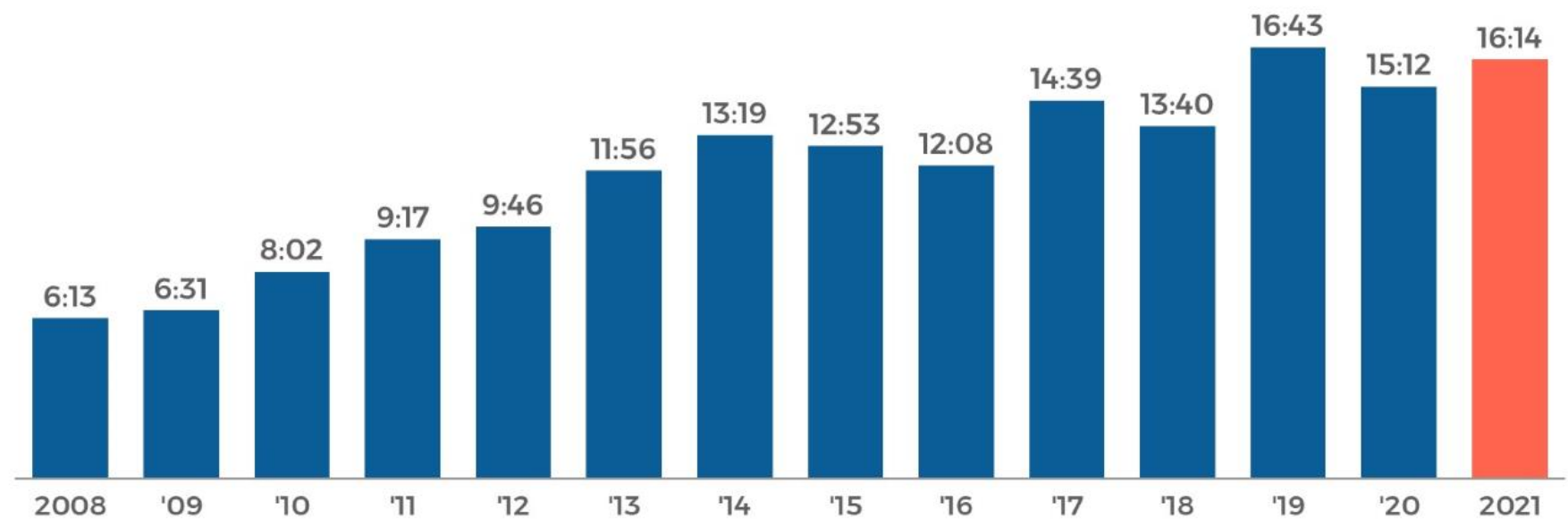
Estimated
176 Million



Average Time Spent Listening to Online Audio

BASE: U.S. AGE 12+ WEEKLY ONLINE AUDIO LISTENERS

HOURS:MINUTES IN LAST WEEK



 THE INFINITE DIAL® 2021

Online Audio Brands



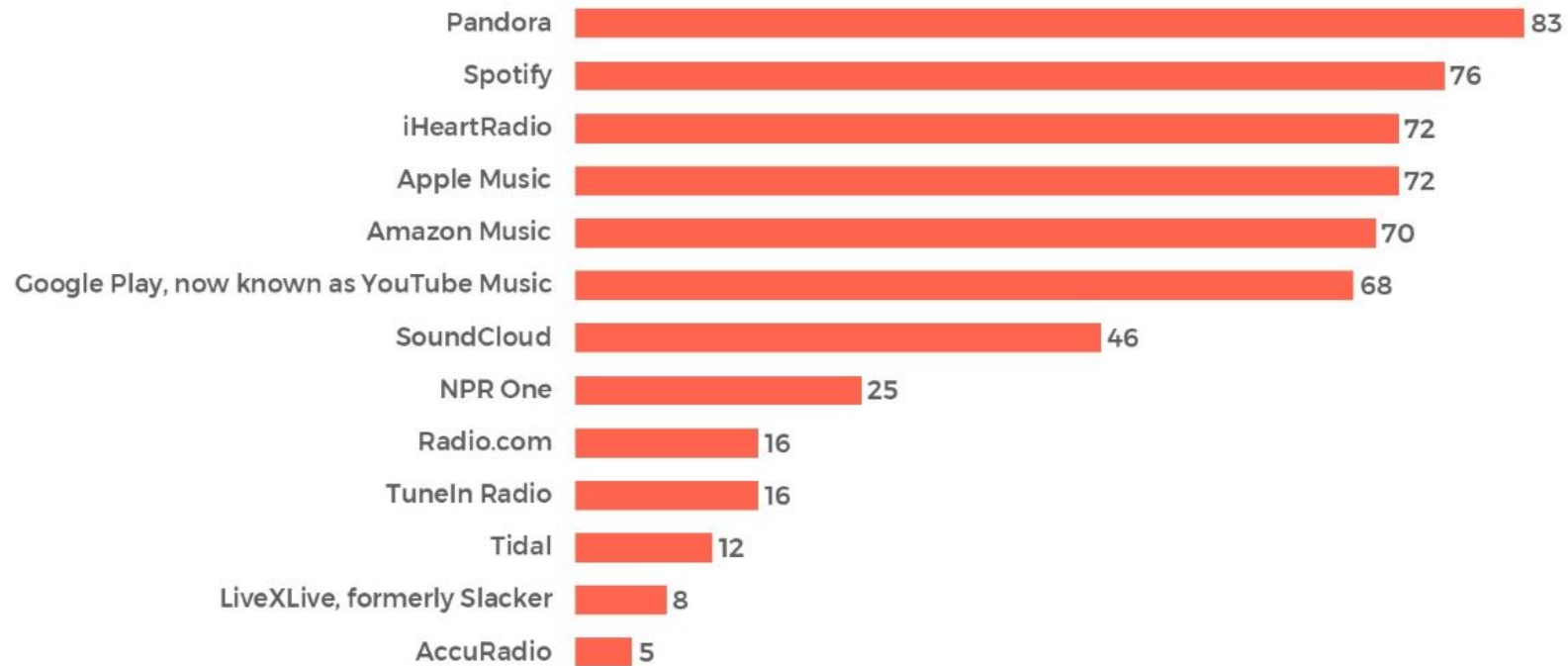
#InfiniteDial

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Online Audio Brand Awareness

TOTAL U.S. POPULATION 12+

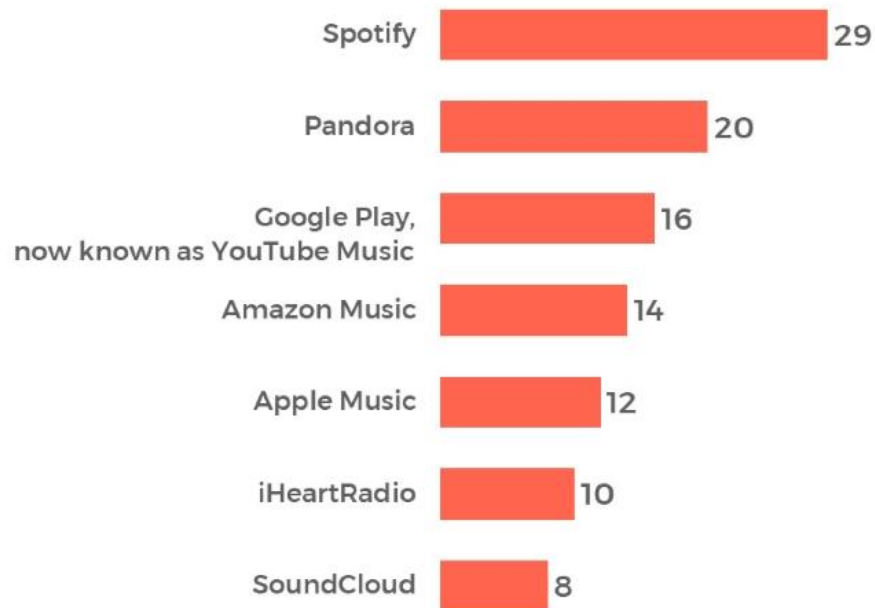
% AWARE OF ONLINE AUDIO BRAND



Online Audio Brands Listened to in Last Month

TOTAL U.S. POPULATION 12+

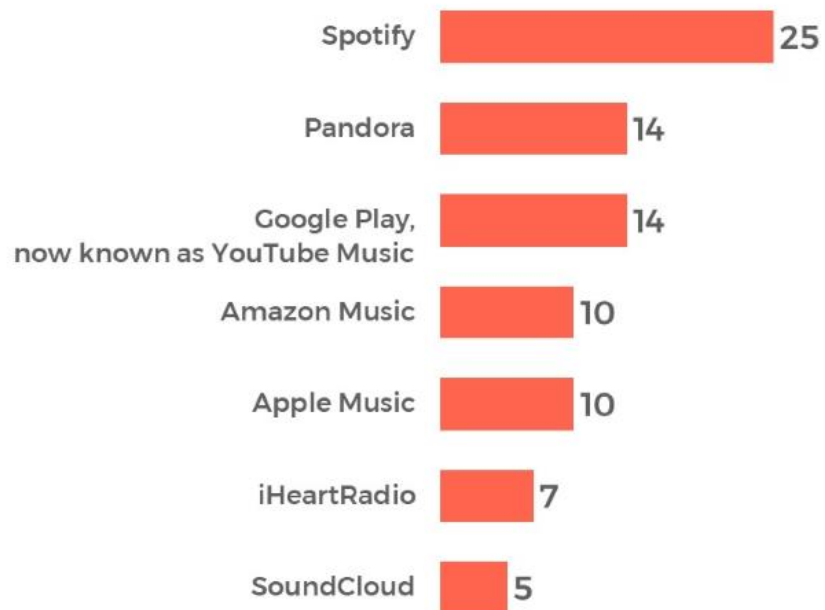
% LISTENED TO ONLINE AUDIO BRAND IN LAST MONTH



Online Audio Brands Listened to in Last Week

TOTAL U.S. POPULATION 12+

% LISTENED TO ONLINE AUDIO BRAND IN LAST WEEK



Online Audio Brand Used Most Often

BASE: U.S. AGE 12+ AND CURRENTLY EVER USE ANY ONLINE AUDIO BRAND



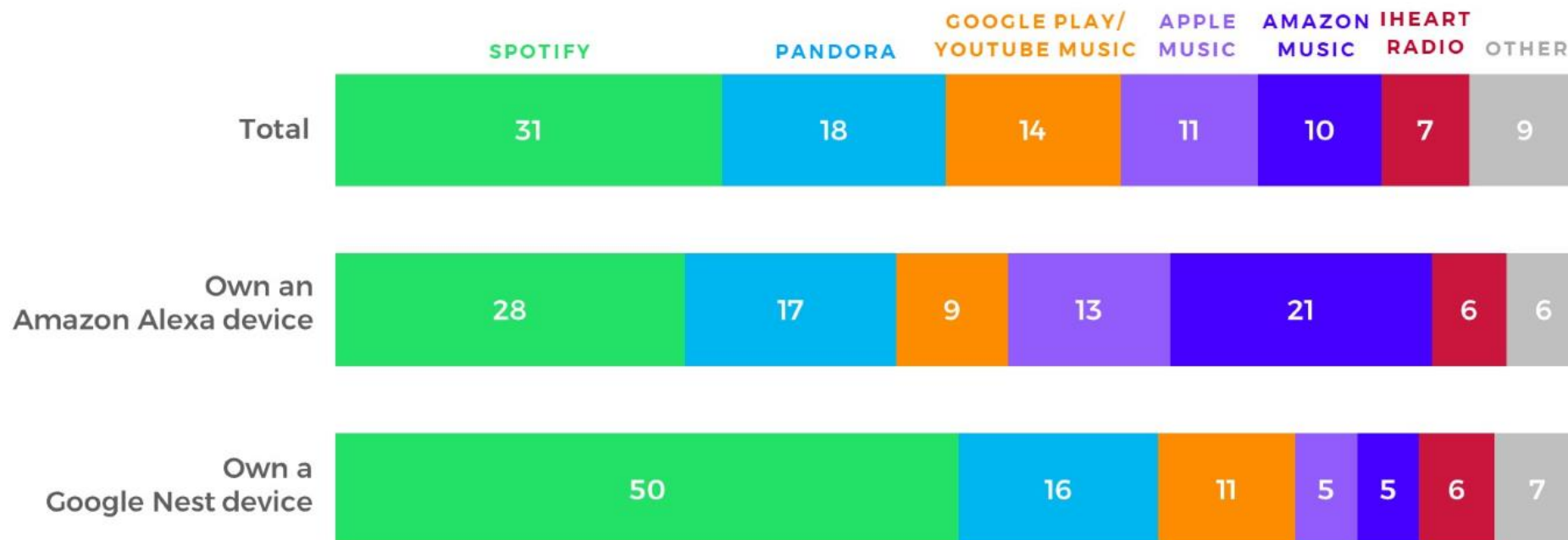
Online Audio Brand Used Most Often

BASE: U.S. AGE 12+ AND CURRENTLY EVER USE ANY ONLINE AUDIO BRAND



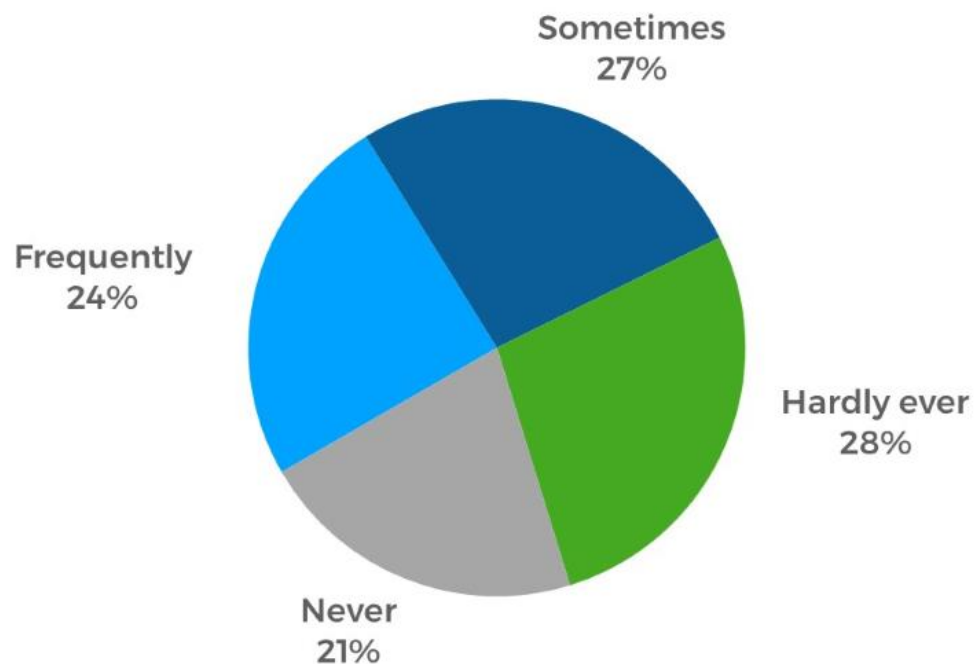
Online Audio Brand Used Most Often

BASE: U.S. AGE 12+ AND CURRENTLY EVER USE ANY ONLINE AUDIO BRAND



Frequency of Listening to Audio with Other People

TOTAL U.S. POPULATION 12+



Frequency of Listening to Audio with Other People

TOTAL U.S. POPULATION 12+



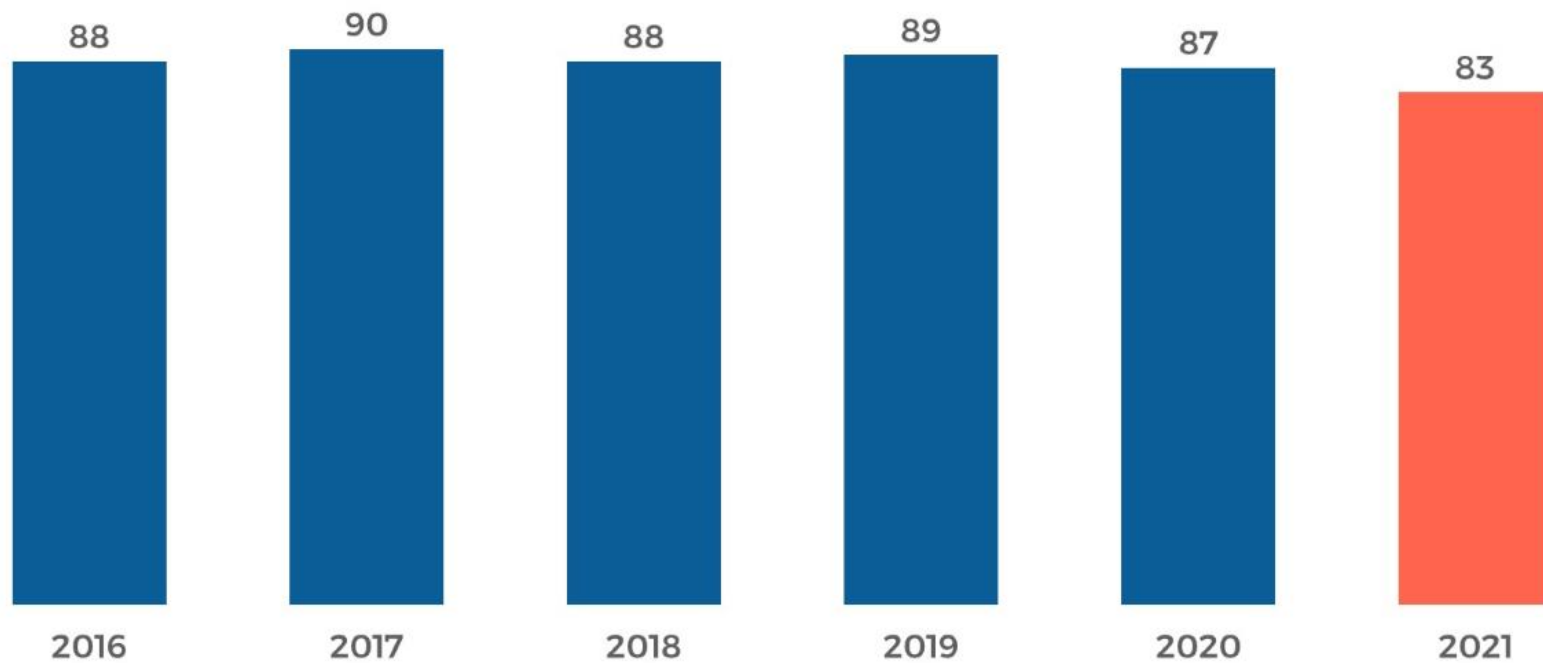
 THE INFINITE DIAL® 2021

In-Car Media

Driven/Ridden in Car in Last Month

BASE: U.S. AGE 18+

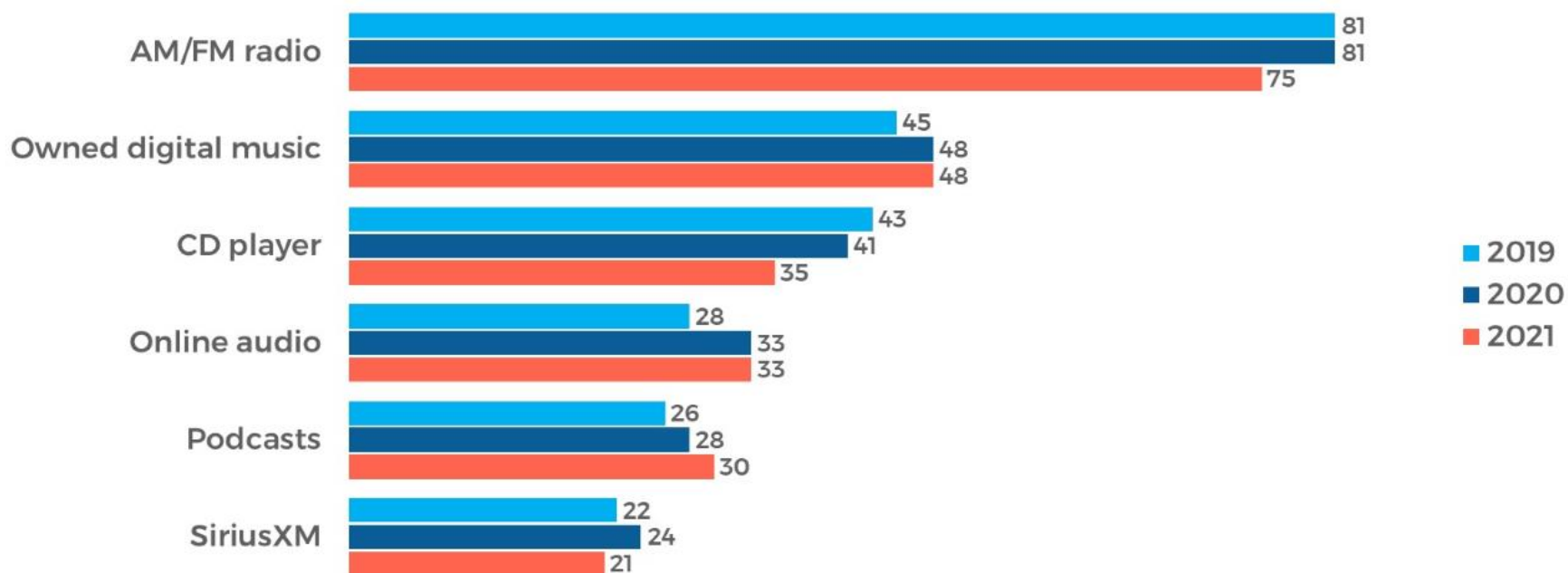
% DRIVING OR RIDING IN CAR/VEHICLE IN LAST MONTH



Audio Sources Currently Ever Used in Car

BASE: U.S. AGE 18+ AND HAS DRIVEN/RIDDEN IN CAR IN LAST MONTH; 83%

% USING AUDIO SOURCE IN CAR



In-Dash Information and Entertainment Systems

BASE: U.S. AGE 18+ AND HAS DRIVEN/RIDDEN IN CAR IN LAST MONTH; 83%

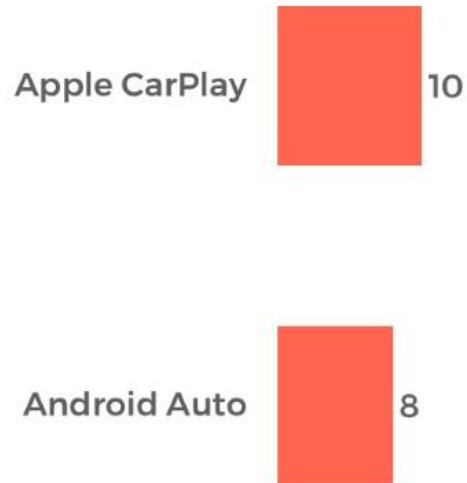
% OWNING IN-DASH INFORMATION AND ENTERTAINMENT SYSTEM IN CAR



Integrated Mobile Operating Systems in Primary Vehicle

BASE: U.S. AGE 18+, DRIVEN/RIDDEN IN CAR IN LAST MONTH, 83%

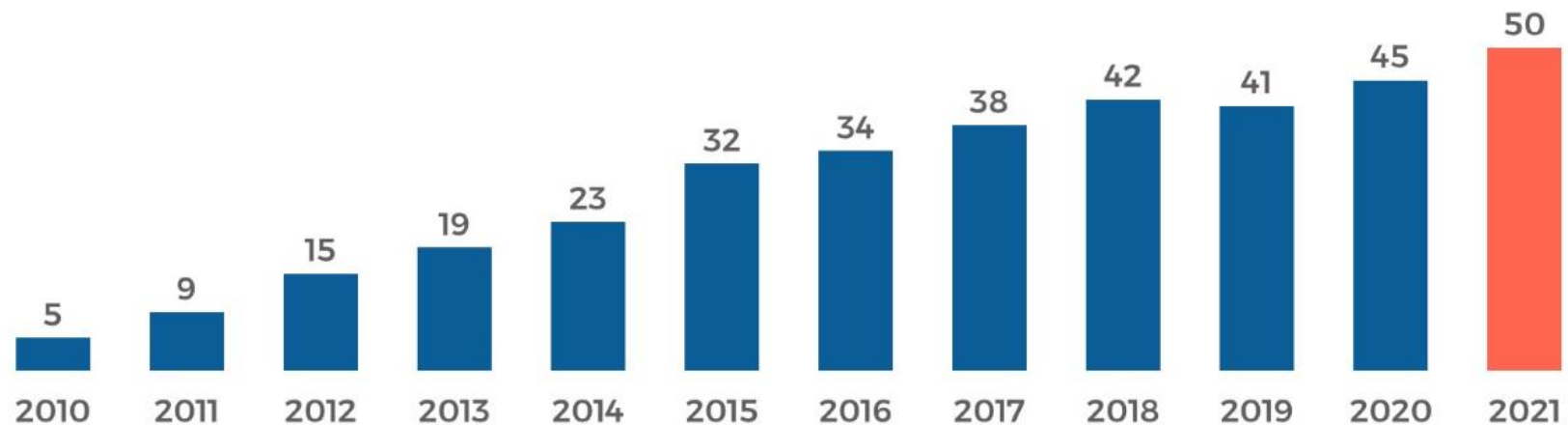
% HAVE SYSTEM IN PRIMARY VEHICLE



Online Audio Listening in Car Through a Cell Phone

TOTAL U.S. POPULATION 12+

% EVER LISTENED TO ONLINE AUDIO IN A CAR THROUGH A CELL PHONE



 THE INFINITE DIAL® 2021

Podcasting



#InfiniteDial

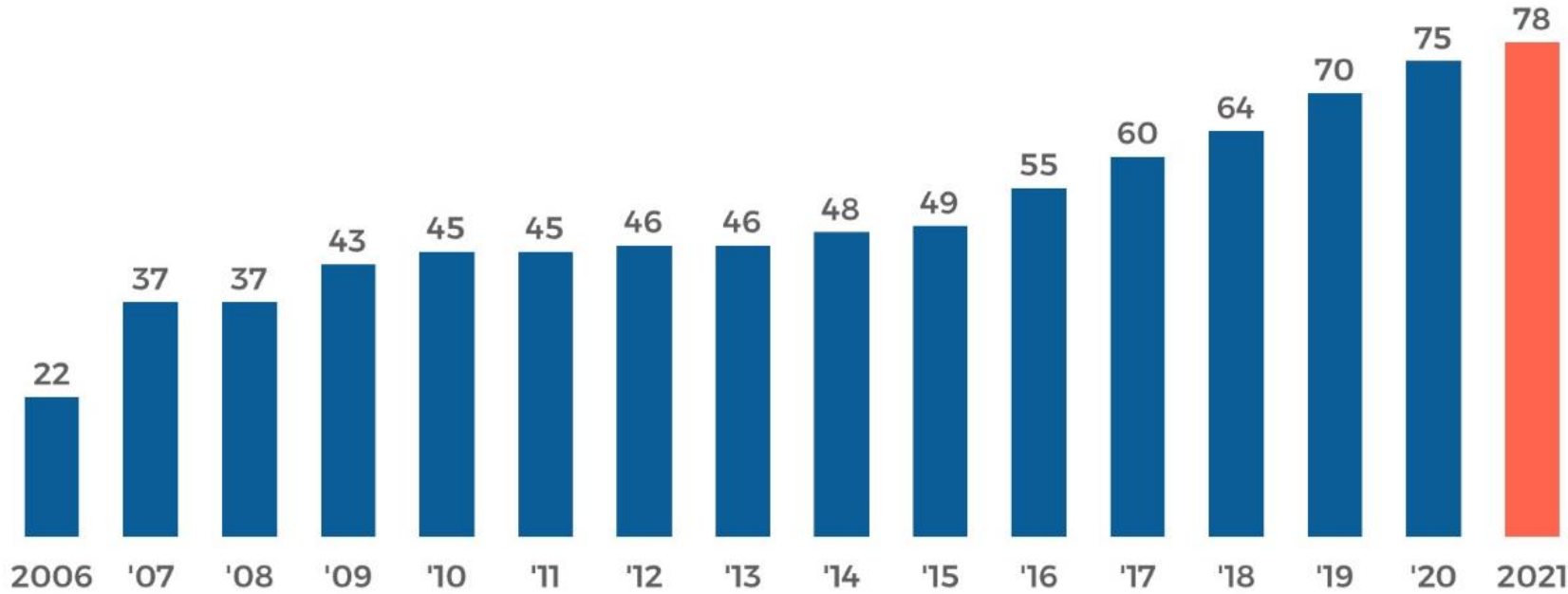
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Podcasting Familiarity

TOTAL U.S. POPULATION 12+

% FAMILIAR WITH PODCASTING

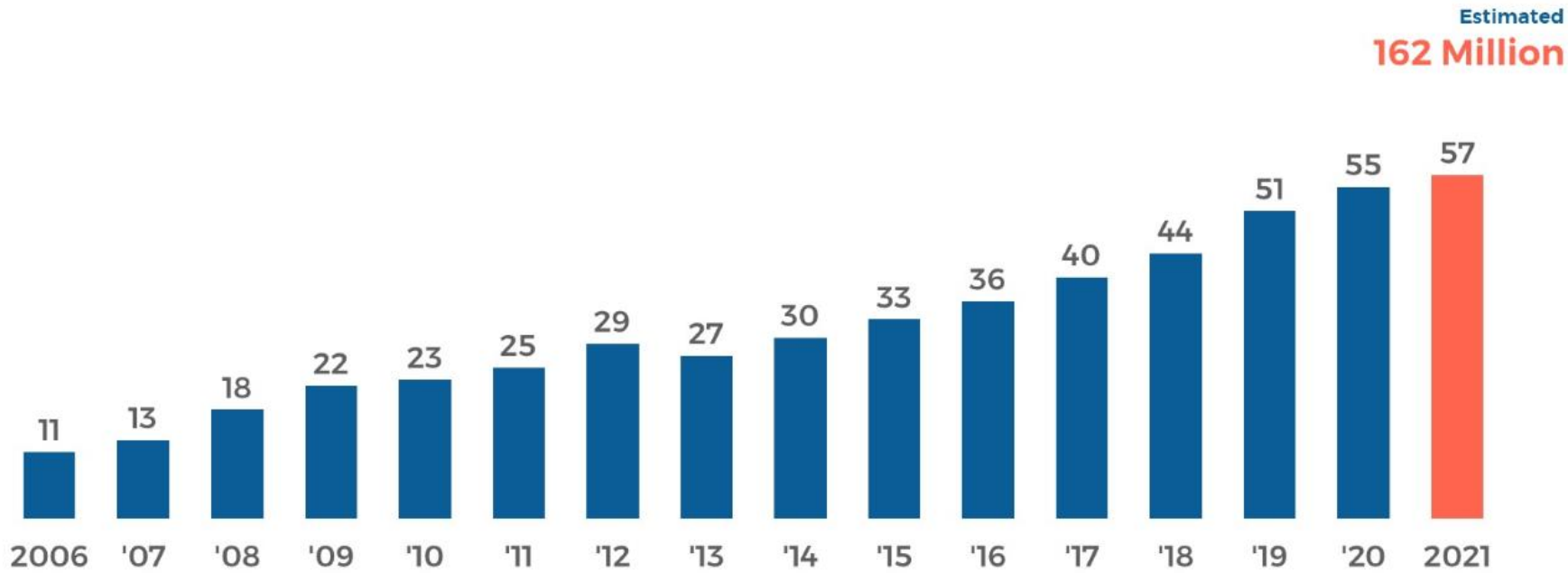
Estimated
222 Million



Podcasting Listening

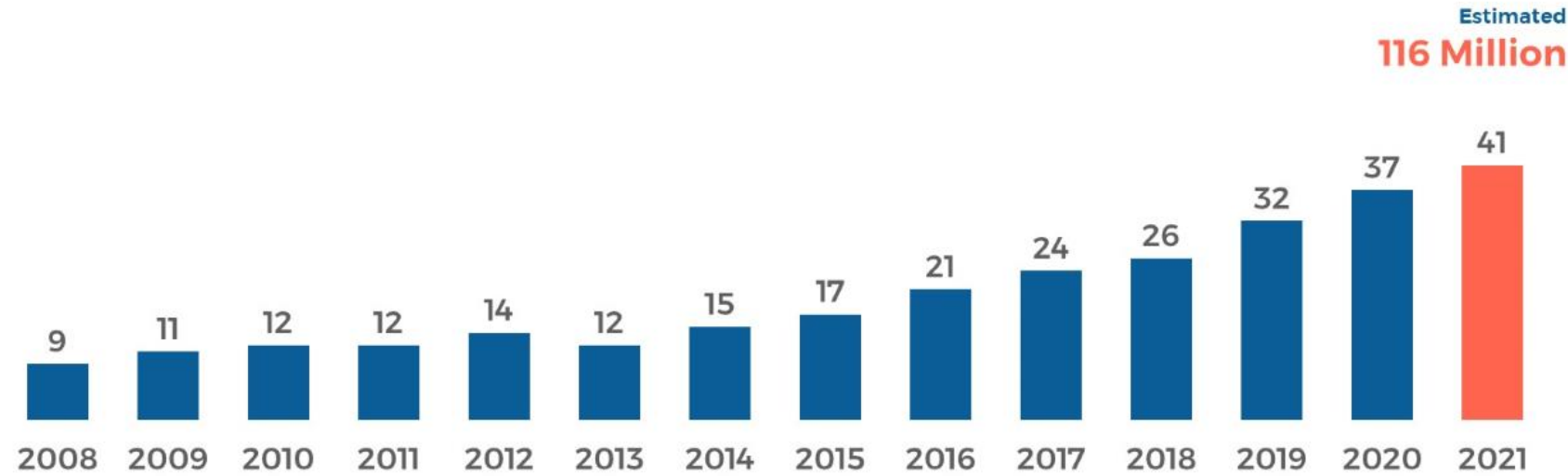
TOTAL U.S. POPULATION 12+

% EVER LISTENED TO A PODCAST



Monthly Podcast Listening

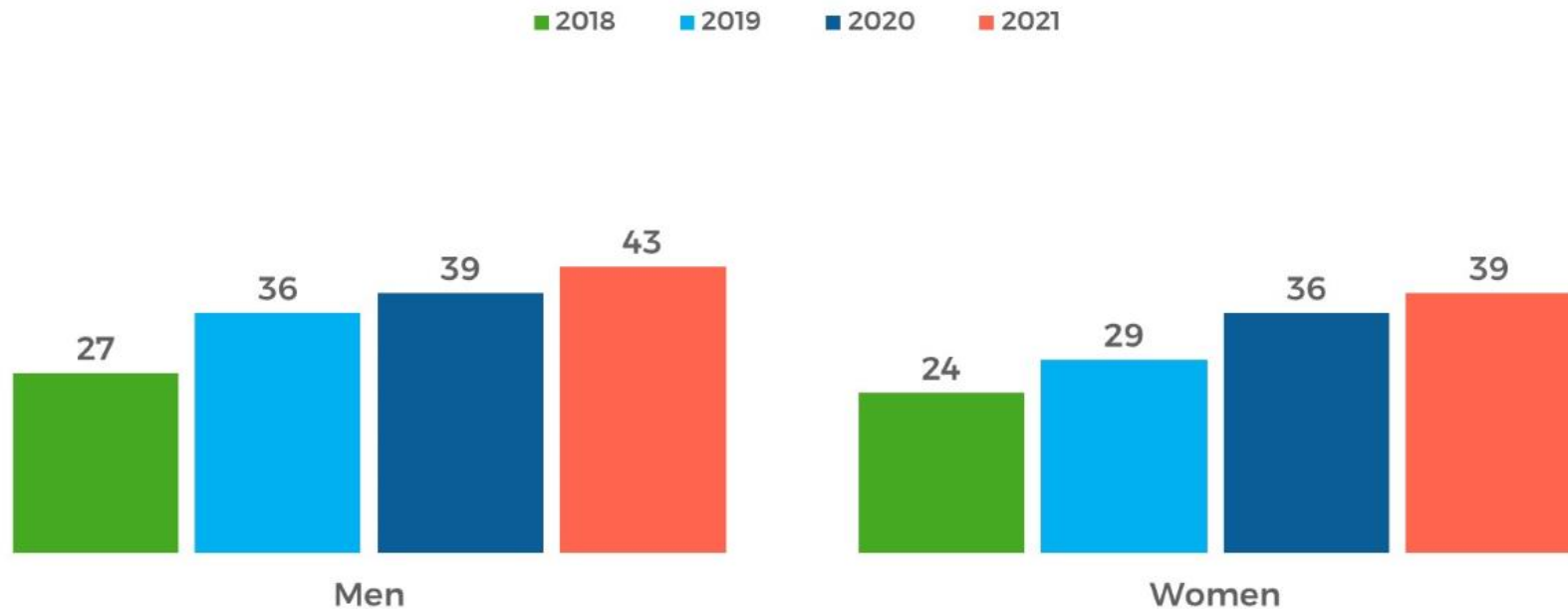
TOTAL U.S. POPULATION 12+
% LISTENED TO A PODCAST IN LAST MONTH



Monthly Podcast Listening

U.S. POPULATION

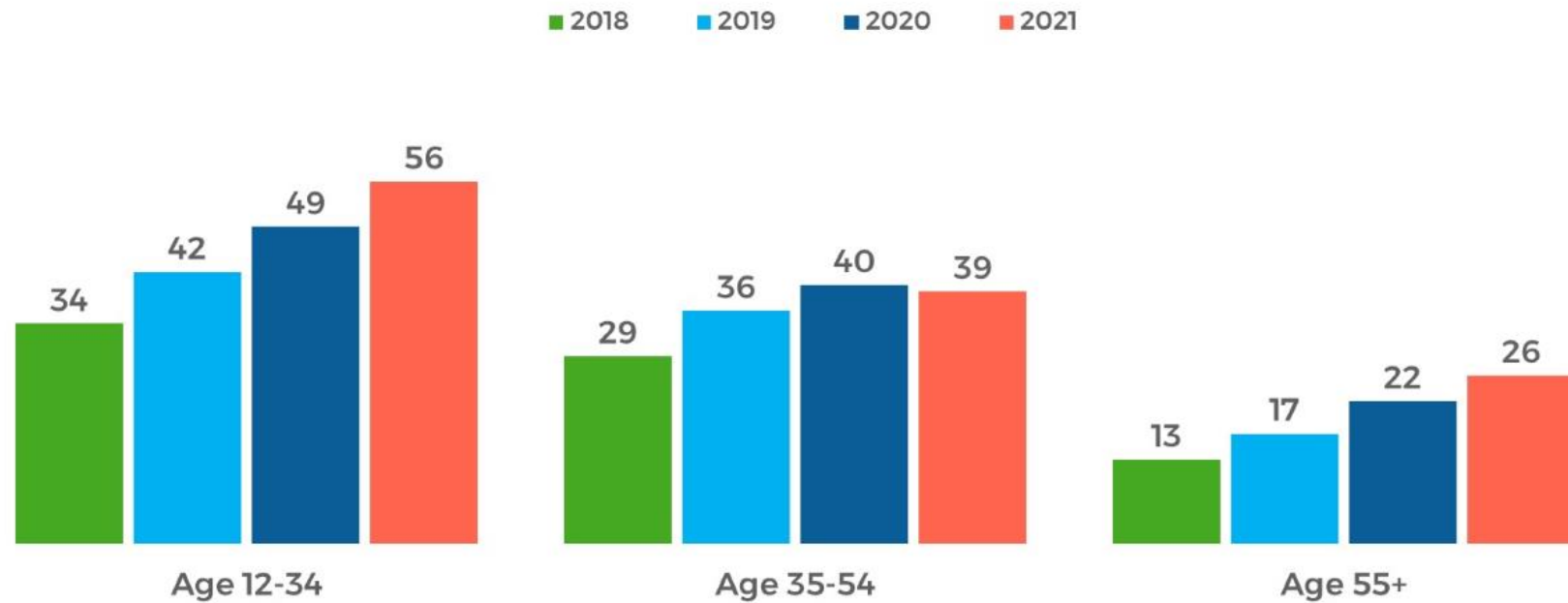
% LISTENED TO A PODCAST IN LAST MONTH



Monthly Podcast Listening

U.S. POPULATION

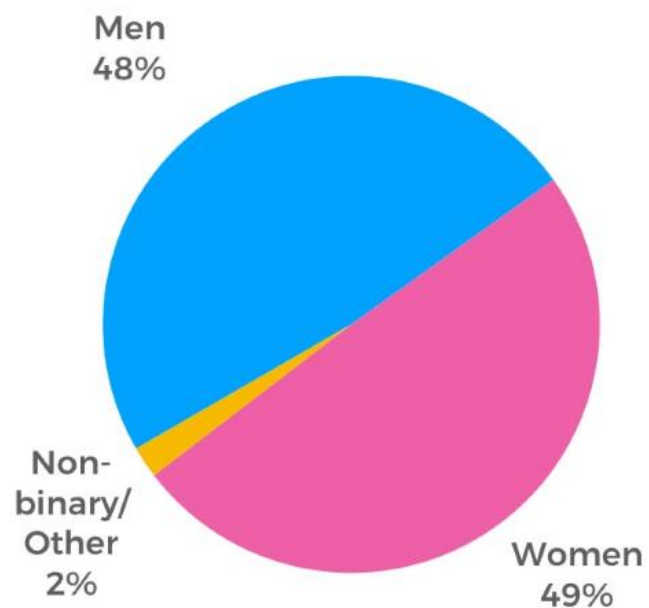
% LISTENED TO A PODCAST IN LAST MONTH



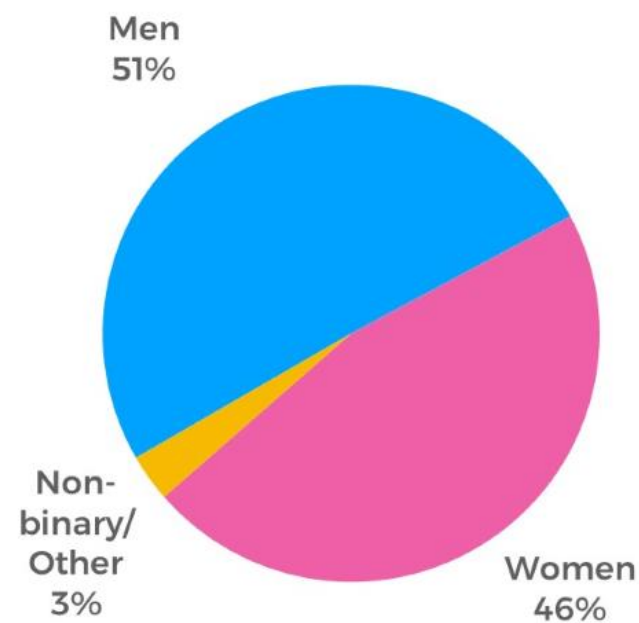
Gender of Monthly Podcast Listeners

BASE: U.S. AGE 12+ AND LISTENED TO PODCAST IN LAST MONTH

U.S. POPULATION 12+



MONTHLY PODCAST CONSUMERS 12+



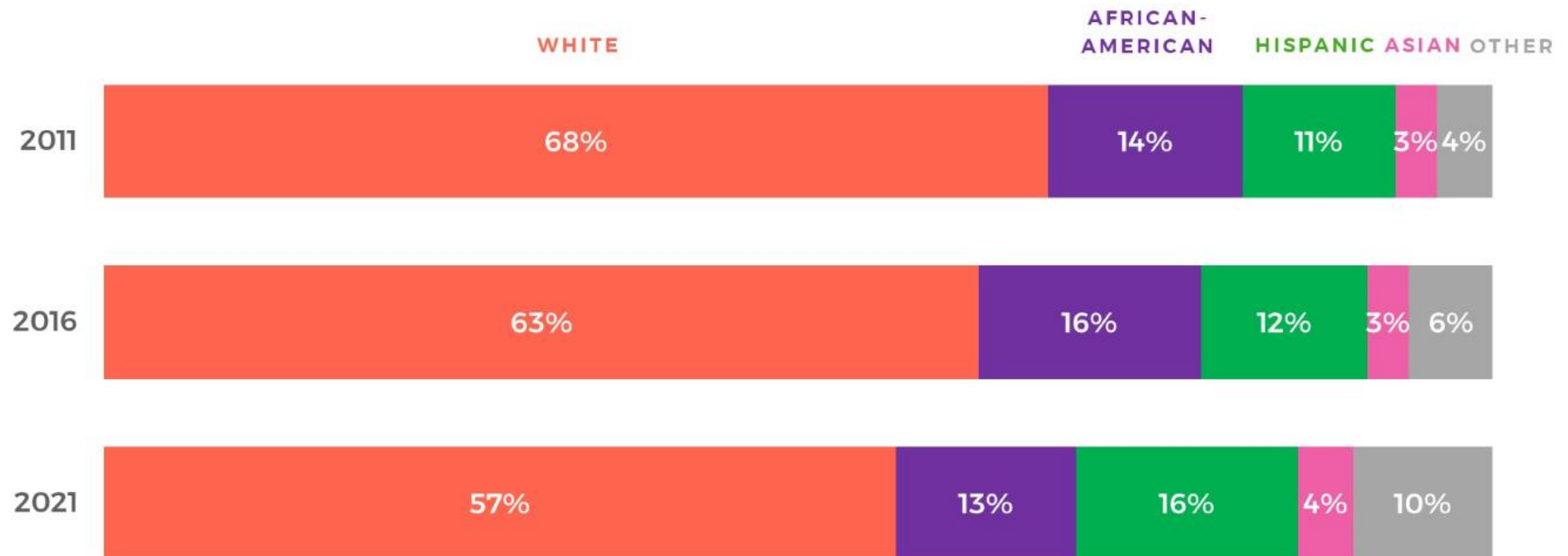
Age of Monthly Podcast Listeners

BASE: U.S. AGE 12+ AND LISTENED TO PODCAST IN LAST MONTH



Ethnicity of Monthly Podcast Listeners

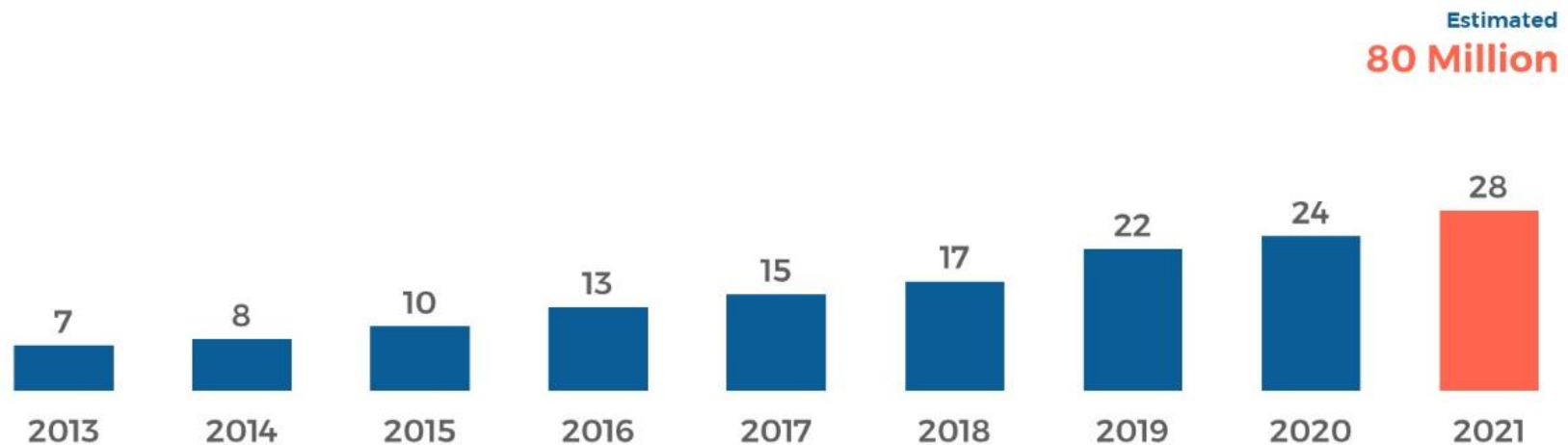
BASE: U.S. AGE 12+ AND LISTENED TO PODCAST IN LAST MONTH



Weekly Podcast Listening

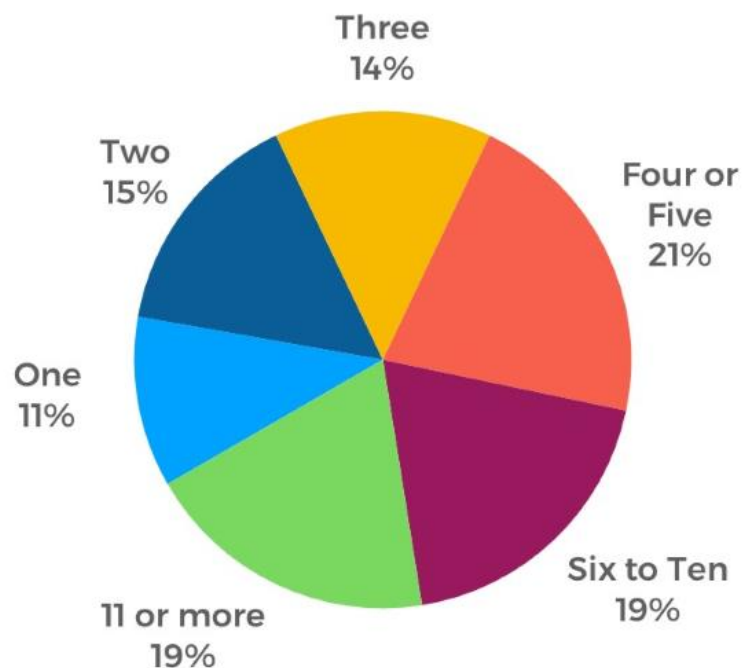
TOTAL U.S. POPULATION 12+

% LISTENED TO A PODCAST IN LAST WEEK



Number of Podcasts Listened to in Last Week

BASE: U.S. AGE 12+ AND LISTENED TO PODCAST IN LAST WEEK



U.S. weekly podcast listeners averaged
Eight podcasts
in the last week

U.S. weekly podcast listeners averaged

5.1 podcast shows

in the last week

Observations

Podcasting has grown significantly, especially with weekly listeners.

Observations

The demographics of podcast listeners continue to diversify. In 2021, the composition of female listeners reached an all-time high.

While podcast consumers continue to be mostly White, the medium exhibited very strong gains with Hispanic/Latino listeners and with Black listeners and now very nearly reflects the diversity of the U.S. population.

Observations

Tablets and watches have clearly plateaued--the smartphone continues to grow and remains the most important device for media consumption

Observations

Smart Speaker ownership grew more than 22% year-over-year, and the number of speaker per home also grew. Pandemic-related restrictions may have helped to fuel this growth, with nearly half of those who primarily work from home now owning a smart speaker.

Observations

While most social media platforms exhibited modest or no growth, TikTok surged, especially among 12-34 year-olds.

For the first time in Infinite Dial history, Facebook is no longer indicated as the most-used platform by a majority of social media users, driven mainly by 12-34 preference for Instagram, TikTok, and Snapchat.

Observations

One-in-five Americans 12+ have now watched a live stream of a video game, and 10% have actually broadcast their own games.

Observations

Weekly online audio listening has hit an all-time high, with an increase in reach also accompanied by a one-hour rise in weekly time spent listening over the previous year.

Observations

Spotify has solidified its spot as the largest single-source for online audio, and has played a role in the growth of podcasting (especially with younger listeners).

Observations

The percentage of Americans who have driven or ridden in a car in the last month decreased on account of pandemic-related disruptions, from 88% in 2020 to 83% this year.

COEX-
8.129

CALENDAR

Coming Soon

The Infinite Dial – Australia

Moms and Media

The Infinite Dial – Canada

Details to follow at www.edisonresearch.com

COEX-
8.129

 THE INFINITE DIAL® 2021

The Infinite Dial 2021

#InfiniteDial



#InfiniteDial

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COEX-8.130

Echo Surpasses Amazon Prime in Building Customer Loyalty

 ecommercebytes.com/2018/01/04/echo-surpasses-amazon-prime-building-customer-loyalty/

Ina Steiner

January 4, 2018



If you know anything about Amazon, you know that the company is investing heavily in its Prime program because Prime members spend more than non-members. A new report suggests customers who own an Amazon Echo “smart speaker” spend even more.

Consumer Intelligence Research Partners, LLC (CIRP) found that Amazon Prime members spend 27% more than average, and Amazon Echo owners spend 66% more than average.

Engagement is clearly an indicator of loyalty – we noted in October that Amazon CFO Brian Olsavsky said Prime members who watch video spend more on Amazon than those who do not.

Breaking down the numbers, CIRP estimates that in the US, the average annual spending at Amazon.com for Amazon Prime members is approximately \$1,300; the average annual spending for Amazon Echo owners is approximately \$1,700; and overall, all US Amazon customers spend approximately \$1,000 annually. (Numbers as of September 30, 2017.)

CRIP cofounder Josh Lowitz said, “Based on the spending patterns of Echo owners, Amazon can certainly subsidize sales its Echo devices.” That sounds like the approach Amazon took with Prime. But Echo is not without rivals, including Google.

CRIP cofounder Mike Levin said, “Of course, it’s early in the game, for the smart speaker market and therefore for this analysis. Still, we base this analysis on the past 12 months of solid customer survey data, and an unmistakable trend has started to emerge, that Amazon creates products and services that seek to promote retail shopping and deeper affiliation at

Amazon.com. Amazon probably wants the Echo device family to stand on its own as a consumer electronics line, while supporting the greater mission of succeeding as an online retailer.”

The end game for Amazon appears to be to make it really easy to order from Amazon using its smart speakers, and get as many of its smart speakers into homes as possible.

Ina Steiner



Ina Steiner is co-founder and Editor of EcommerceBytes and has been reporting on ecommerce since 1999. She's a widely cited authority on marketplace selling and is author of "Turn eBay Data Into Dollars" (McGraw-Hill 2006). Her blog was featured in the book, "Blogging Heroes" (Wiley 2008). Follow her on Twitter at @ecommercebytes and send news tips to ina@ecommercebytes.com. See disclosure at EcommerceBytes.com/disclosure/.

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